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Työn nimi Social innovation in the private sector: Evaluating the effectiveness of the Business Model Canvas in fostering social value creation

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The capitalist system has proven to be a powerful machine for wealth creation. However, many people are questioning the capability of capitalism to improve the wellbeing of people and benefit the society. It is a common perception among many people that companies are generating profit at the cost of the broader society. It is also a common supposition inside the business world that actions driven by the desire to help the surrounding society are usually harmful for the profitability of the company. On the contrary, there are also many companies that claim to go beyond the 'only for profit'-thinking. These companies argue that they have a mission to benefit the society in broader ways than just acting as a part of the capitalist system.

This thesis touches the relationship between profitability and benefitting the society. The study focuses on social innovation, a specific type of innovation, which arises from the aspiration to meet the needs of the society. The context of this thesis is organizations within the private sector with a specific focus on companies that claim to have positive social ambitions. The concept of social value - value that accrues to the society as a whole - is examined and it will be discussed how organizations can integrate social value creation into their business models.

This will be followed by introducing a business model innovation tool called 'The Business Model Canvas', which will be examined through retrofitting the business models of four example organizations on it. The chosen example organizations claim to create social value and the different logics of how they strive to do it are examined with the help of the canvas. Based on this experiment, it will be evaluated how suitable 'The Business Model Canvas' is for fostering social innovation. It will be evaluated if the tool has the necessary elements to be helpful for those people who are aiming for innovation that brings value for the broader society. The findings are used to create an initial proposal for a possible development of the Business Model Canvas to be more sufficient for fostering social value creation.

This thesis suggests that in the private sector the importance of social innovation is likely to grow. It is also concluded that an efficient way for achieving positive social impact is to embed social value creation as an integrated part of a company's business model. It is argued that the holistic approach associated with 'The Business Model Canvas' is appropriate for social innovation. However, it will also be suggested that 'The Business Model Canvas' as such may need certain improvements to be more efficient for social innovation.

Avainsanat social innovation, business models, business model canvas, the private sector



Social innovation in the private sector

Evaluating the effectiveness of the Business Model Canvas
in fostering social value creation



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Master of Arts Thesis / Aalto University / School of Arts, Design and Architecture
Department of Design / Industrial and Strategic Design Program / 2012

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ABSTRACT

The capitalist system has proven to be a powerful machine for wealth creation. However, many people are questioning the capability of capitalism to improve the wellbeing of people and benefit the society. It is a common perception among many people that companies are generating profit at the cost of the broader society. It is also a common supposition inside the business world that actions driven by the desire to help the surrounding society are usually harmful for the profitability of the company. On the contrary, there are also many companies that claim to go beyond the 'only for profit'-thinking. These companies argue that they have a mission to benefit the society in broader ways than just acting as a part of the capitalist system.

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This thesis suggests that in the private sector the importance of social innovation is likely to grow. It is also concluded that an efficient way for achieving positive social impact is to embed social value creation as an integrated part of a company's business model. It is argued that the holistic approach associated with 'The Business Model Canvas' is appropriate for social innovation. However, it will also be suggested that 'The Business Model Canvas' as such may need certain improvements to be more efficient for social innovation.

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1 INTRODUCTION

Market capitalism is facing many threats. It has been argued that many emerging forces may seriously damage the market economy in the coming decades. As capitalism is part of a complex sociopolitical system, the threatening forces, such as breakdowns in global trade or environmental degradation, can emerge from various directions. Some threats to capitalism arise from sources external to the market system while some are powered by the negative consequences of the system itself. (Bower, Leonard and Paine, 2011 p.106-107) People outside business often perceive that companies are making profit at the cost of the broader society (Porter & Kramer 2011, p.64). There is also a common belief inside companies that caring about the society and environment is inevitably against profitability, as Olsen and Lingane explain: *“Conventional wisdom dictates that financial and social goals are in opposition: economic development versus environmental protection has been framed as a zero sum game in the United States for decades (2003, p.2).”*

However, many companies such as TOMS Shoes or The Big Issue claim that they do not merely aim for profit maximisation but also aspire to benefitting the society simultaneously. It has been suggested that it is indeed the job of companies to bring

business and society back together (Porter & Kramer, 2011, p.64). It has also been stated that today, it is evident that the independence of benefitting the society and creating profit is a myth (Battilana et al. 2012, p 52). Alternative ways to consider how organizations create value have been suggested by numerous authors. In these suggestions, unlike the common belief, helping the society, social value creation, is often seen to be beneficial for profitability. Ideally, these new ways to see value creation lead to situations where companies benefit the society while generating profit at the same time. This new perception of value creation is seen as a driver for future innovation that will ideally make market competition benefit the society in ways that are lost at the moment. (Porter & Kramer, 2011, p. 64, 77)

One of the most established concepts for understanding and creating positive social change is social innovation. Social innovation is inspired by the desire to meet social needs and it can take place in the public or third sectors, but also in the private sector (Harris and Albury, 2010, p.3). Social innovation can emerge in many settings and result in various kinds of outputs. However, it has been argued that in private organizations, perhaps the most efficient way to achieve social goals is to embed social value creation as deeply as possible in

the organizations business model. Creating social value should not be treated as a separate goal, but instead it should be linked to the core business. It has been said that this approach to social innovation has many benefits. Firstly, when social value creation is integrated in the core business, everyone in the organization is working towards one goal. The company has a unified strategy with no separation of agendas between the business department and the corporate social responsibility department for example. *“...managers do not face a choice between mission and profit, because these aims are integrated in the same strategy (Battilana et al. 2012, p. 52).”* Secondly, it means that if the business grows, the positive social impact grows simultaneously. *“...the integration of social and commercial value creation enables a virtuous cycle of profit and reinvestment in the social mission that builds large-scale solutions to social problems (Battilana et al. 2012, p. 52).”*

However, social innovation can be rather challenging. It has been said that social innovation in the private sector is about making business decision with a broader stakeholder perspective (Carrier, 2009). When the desired output is benefitting the society as a whole, the innovator needs to understand a very complex set of variables in the surrounding society. However, the current business model theories and

tools, such as the Business Model Canvas by Osterwalder & Pigneur, may not be sufficient in helping innovators to understand the surrounding society broadly enough, or embedding social value creation in their companies' business models.

1.1 Objectives and research question

Objectives

1. To define social innovation and gain understanding of the basic principles and challenges related to creating value for society as a whole.
2. To discuss the value of social innovation in the private sector and to examine the relationship between social value creation and profitability.
3. To assess the effectiveness of the Business Model Canvas in fostering social innovation in the context of the private sector.

Research question:

How effective and sufficient is the 'Business Model Canvas'
- a tool that inspires visual thinking and other design methods -
in fostering social innovation in the context of the
private sector?

1.2 Scope

The scope of this study will focus on social innovation in the private sector and business models in relation to that.

Embedding social value creation into business models will be discussed. Furthermore, it will be evaluated how useful the Business Model Canvas is in fostering social value creation.

Figure 1: Scope



1.3 Methodology

First, a literature review is conducted. Social innovation literature and business literature are reviewed to build general understanding about social innovation within the practices of private sector organizations. This will be followed by a case study, during which the business models of four example organizations, that claim to create social value, are unbundled according to the Business Model Canvas. Referring to this experiment, the effectiveness of the Business Model Canvas in fostering social innovation is evaluated. Some expert interviews to direct the work are also conducted.

1.4 Structure

The thesis will begin with generally discussing and defining social innovation. This will be followed by discussing the concept of social value, a type of value that is specific for social innovation. After that, the relationship between social value creation and profitability will be overviewed, followed by an introduction of the Business Model Canvas and examining it through four example organizations. Finally, the effectiveness of the Business Model Canvas in fostering social innovation is evaluated based on findings made during the case study. The conclusions will include an initial suggestion for a possible

modification to the Business Model Canvas, for it to become a more efficient tool for social innovators.

1.5 Personal background and interests

I was interested in strategic design early in my design studies at Aalto University. This interest led me to take the International Design Business Management minor studies, where I learned about implementing design methodology into a wide range of challenges. Now I want to expand my knowledge into the area of social innovation, and learn about the possibilities of applying design methodology in that area. There is a noticeable buzz around the social impact of companies and ‘all things social’ and I want to learn more about these matters. It appears that there is a lot of talk about the ‘social good’ of design and some designers seem to perceive themselves as “representatives of the people and what is good for them” in the business world. I want to question this claim of designers or their methods being more human those from other disciplines and also learn more about the social aspects of business.

Choosing this topic is a big leap into the unknown for me and I hope to gain new knowledge about the previously unknown areas of business models, social innovation and social impact. It appears to me that the social impact of companies is of growing

interest at the moment. The marketing of many companies nowadays seems to have a growing emphasis on their efforts to drive positive social change. The complexity of the topic of social innovation is at the same time appealing and terrifying and I hope to gain at least some understanding about the subject. Due to my previous work experience and interest in private sector organizations, there will be an emphasis on the private sector instead of the public sector or non-profit organizations.

2 OVERVIEW ON SOCIAL INNOVATION

The term 'social' is associated with various matters and many words are juxtaposed with it. These words include entrepreneurship, enterprise and impact, just to name a few. One of the terms paired with 'social' is innovation. Together they form the term 'social innovation' that will be a key reference point of this thesis. This section will begin with the reasoning that led to choosing social innovation as the main frame of reference, instead of 'social entrepreneurship' or 'social enterprise' for example. After that, innovation in general will be briefly discussed, and finally the definition of social innovation is discussed.

Reasoning behind selecting social innovation as reference point

The terms social entrepreneurship and social enterprise have their foundation in the non-profit sector, and consequently the topics discussed under those terms tend to be limited to non-profits, while public and for-profit organizations are often excluded (Phills, Deiglmeier and Miller 2008 p. 37). As Auerswald argues, opinions are also contradicting whether

social entrepreneurship or the work of large for-profit companies is more valuable in terms of creating positive social impact. According to him, those who advocate social entrepreneurship state that social entrepreneurs undertake initiatives that unsettle the status quo and without them, critical societal challenges would remain unsolved. He continues that, the people questioning the significance of social entrepreneurs say that large businesses create more social value through providing stable jobs and availability to low cost products. Their rationale is based on the logic of scale and in their opinion the impact of a large corporation exceeds the influence of many social entrepreneurs. (2009, p. 51-52)

It is not in the objective of this thesis to argue where the biggest potential for positive social impact is. Rather, it is to study the specific nature and mechanisms of social value, and evaluate the usefulness of a business model tool in fostering the creation of that specific type of value. Unlike social entrepreneurship and social enterprise descriptions, in social innovation definitions, the emphasis is not so strongly in where it emerges. Instead, in that sense social innovation definitions are very inclusive and they have a greater weight on the type of value created. This thesis begins from the supposition that innovation that creates positive societal outcomes can happen in any organization,

whether it is public, for-profit or non-profit. Therefore, for the purpose of this thesis, social innovation appears to be a better stepping stone than social entrepreneurship or social enterprise. Social innovation provides a wider frame of reference. Since social innovation and social entrepreneurship are so strongly connected, occasional referrals to social entrepreneurship literature will be made as well.

2.1 Brief overview on innovation

Innovation is a versatile and broadly used term. It is used with similar ease in design-, business-, engineering- and political discussions and it is also regularly seen in marketing for promoting the new qualities of products for instance. The term is commonly paired with descriptive terms, as in: technical innovation, business innovation, organizational innovation, process innovation, and open innovation etcetera. This list could be continued at length which highlights the diversity of the term. A specific type of innovation is social innovation, which will be the focus of this study.

To understand social innovation one needs to have basic knowledge of innovation in general terms. Albeit theorizing about innovation in general is not the main focus of this thesis, a brief discussion about it has its place here. After discussing innovation in general, the distinctive qualities of social innovation will be discussed. What does social innovation mean and how is it different from other types of innovation? Does it need to be separated from other types of innovation in the context of a for profit business? In this section, answers to these questions are searched.

Innovation can be seen as a process or an output

The term innovation is used for various matters and it also has different meanings for different people. As has been argued, innovation nowadays represents so much that one could even argue that it does not have a true meaning anymore (Brier, 2012). Therefore, to set the foundation for discussing social innovation, a brief look into some definitions of innovation in general is taken.

Oxford Dictionaries define innovation as follows (2012):

noun

[mass noun]

the action or process of innovating:

innovation is crucial to the continuing success of any organization

[count noun]

a new method, idea, product, etc.:

technological innovations designed to save energy

The Oxford Dictionaries definition illustrates two common meanings of the term. They define innovation as: “*the action or*

process of innovating”, which defines innovation as a process, or “*a new method, idea, product, etc.*” which sees innovation as an output. In short: innovation can be seen as a process or a product. The academic literature on innovation is also divided into two streams following this division (Phills, Deiglmeier and Miller, 2008, p.37). As the objective of this thesis to evaluate the effectiveness of a business innovation tool in cultivating the process of social innovation, it is more relevant for this thesis to focus on ‘innovation as a process’ rather than ‘innovation as a new idea’. However, what defines social innovation is the end result, creating social value, and this will also be discussed.

The fuzzy and diverse processes of innovation

As innovation processes are diverse and happen in miscellaneous settings, they are a relatively challenging topic to study. Attempting to portray a simple outline of an innovation process has proven to be difficult; to say the least it is risky in terms of over-simplification. As Kline and Rosenberg claim: *“The systems used in innovation processes are among the most complex known (both technically and socially), and the requirements for successful innovation vary greatly from case to case. Thus, a general discussion of innovation requires the exploration of a number of dimensions and the use of caution in deciding what can be generalized. (1986, p.276)”* Bearing this caution in mind, an overview of some innovation process theories follows.

Despite the diversity, researchers have discovered some patterns related to innovation. Phillips, Deiglmeier and Miller have summarized the different elements of innovation as follows: *“To summarize, it is essential to distinguish four distinct elements of innovation: First, the process of innovating, or generating a novel product or solution, which involves technical, social, and economic factors. Second, the product or invention itself - an outcome that we call innovation proper. Third, the*

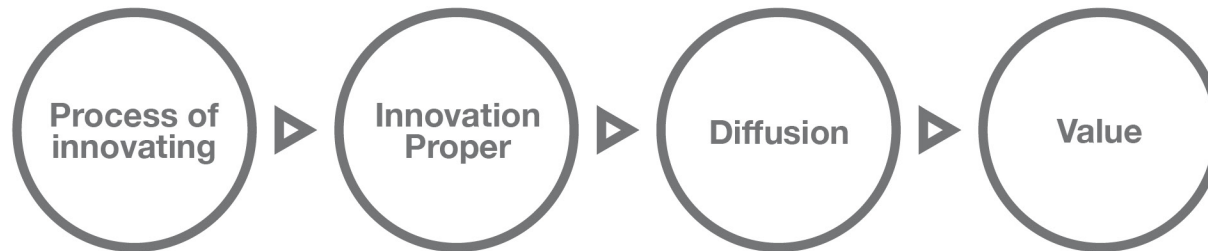
diffusion or adoption of the innovation, through which it comes into broader use. Fourth, the ultimate value created by the innovation. (2008, p.38)” Their summary of the elements of innovation is somewhat similar to the ‘Innovation Value Chain’ presented by Hansen and Birkinshaw, who argue that: *“To improve innovation, executives need to view the process of transforming ideas into commercial outputs as an integrated flow (2007, p.123-124).”* The following visualisation shows the ‘Four Elements of Innovation’ summarized by Phillips, Deiglmeier and Miller juxtaposed with ‘Innovation Value Chain’ By Hansen and Birkinshaw.

Both frameworks visualised on this page show a holistic overview on innovation as a sequential process on a time axis. They show that an idea alone is not enough, but only after being implemented and adopted to use and thus bringing value an idea becomes an innovation. Both frameworks remain at a relatively general level and understandably the needed steps and processes vary greatly from case to case. This is also the case with business model innovation as has been argued by Osterwalder and Pigneur: *“Every business model design project is unique, and presents its own*

challenges, obstacles and critical success factors, every organization starts from a different point and has its own context and objectives when it begins addressing an issue as fundamental as its business model. (2010, p. 244)”

In the case of social innovation this uniqueness of each case is also true, as will be learnt from the case examples later on. The process of implementing a good idea so that it will create value is often the most time consuming and challenging part of the process, as will be discussed next.

Four elements of innovation



Innovation value chain

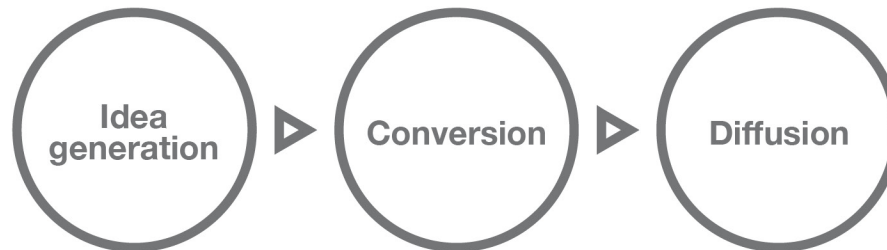


Figure 2: Four elements of innovation
& Innovation value chain

Innovation is more than a eureka moment

For many, it is the sudden flash of an idea that defines innovation (Birkinshaw, Bouquet and Barsoux, 2011 p.2). However, no matter how good an idea might be, it is not an innovation until it is put to use, and creates value. Sawhney, Wolcott and Arroniz, highlight this point in a business context as follows: *“Innovation is relevant only if it creates value for customers — and therefore for the firm. Thus creating “new things” is neither necessary nor sufficient for business innovation”*. They continue by commenting on the value of innovation by saying: *“Customers are the ones who decide the worth of an innovation by voting with their wallets. It makes no difference how innovative a company thinks it is. What matters is whether customers will pay.”* (2006, p. 29-30) In their rationale it is the customers’ willingness to pay that defines the value of an innovation. However, winning the customers on your side is not necessarily enough as Hansen and Birkinshaw argue: *“Concepts that have been sourced, vetted, funded, and developed still need to receive buy in – and not just from customers. Companies must get the relevant constituencies within the organization to support and spread the new products, businesses, and practices across desirable geographic locations, channels, and customer groups.”* (2007 p.3) As can be seen from the above citations, in the business environment, to turn an

idea into a value bringing innovation, numerous stakeholders need to be convinced about the idea. Later in the following chapter about social innovation we will discover that in this area the group of relevant stakeholders is even wider, the systems of diffusion are more complex, and accordingly, evaluating the overall value of an innovation needs to be done in a more broadly considered manner than what is necessary in conventional business context.

It has been suggested that the latter stages of the innovation value chain are the most time consuming and problematic. Birkinshaw, Bouquet and Barsoux had asked managers from 123 companies to evaluate how effective they were at each stage in the innovation value chain. On average, the business leaders had answered that they were relatively good at idea generation, but their performance fell for every subsequent stage of the chain. They conclude that:

“Most innovation efforts fail not because of a lack of bright ideas, but because of a lack of careful and thoughtful follow-up.” (2011, p.2)

In this thesis, innovation will be discussed from the viewpoint that a new idea becomes a valuable innovation when it creates value. In simplified terms, in the business domain the value is

created for the customer and, as they pay, for the company. In this way assessing the value of an innovation is relatively simple - how much customers are willing to pay is the value of the innovation. Later when discussing social innovation we will discover that assessing the value of an innovation is not as simple in that case as social value is more complex than business value. Nevertheless, the key takeaway from this chapter is that an idea needs to be implemented to create value to qualify as an innovation.

“All innovations are social”

Earlier, it was stated that no idea as such is an innovation until it diffuses to the surrounding society. Tuomi has discussed this characteristic of innovation, as follows: *“Innovations become real when new technical gadgets or concepts are taken into use in a social group that carries on a specific social practice. The flash of creative light does not strike an individual inventor; instead, it shines on a community of practitioners. (2004, p.5)”* As innovation needs to diffuse to the surrounding society to become real, all innovations are social in that sense. Hämmäläinen has illustrated this rationale through the example of freezers and refrigerators. Inventing these two home appliances could easily be considered solely as technical

innovation. However, these technologies had a great social impact through expanding the shelf life of food, and hence enabling many people to have a more balanced and rich diet. (2005, p. 197) However, for the purpose of this thesis this rationale that “all innovations are social” is not sufficient, but a more profound understanding about the specific qualities of social innovation, a particular type of innovation, is needed.

2.2 Defining social innovation

The very essence of social innovation makes defining it briefly and precisely somewhat challenging. Murray, Caulier-Grice and Mulgan illustrate the diverse contexts and multidimensional nature of social innovation as follows: *“Social innovation doesn’t have fixed boundaries: it happens in all sectors, public, non-profit and private. Indeed, much of the most creative action is happening at the boundaries between sectors, in fields as diverse as fair trade, distance learning, hospices, urban farming, waste reduction and restorative justice. (2010, p.3)”* In this sense social innovation is not different from other types of innovation; the diversity of settings and processes related to innovation are also true in the case of social innovation. For this reason, trying to define social innovation in terms of where it happens is risky because it can result in oversimplifying the matters and

exclusion. Nonetheless, there are numerous definitions of social innovation and some of these are reviewed in this chapter.

Harris and Albury have defined social innovation in the following way:

“Social innovation is innovation that is explicitly for the social and public good. It is innovation inspired by the desire to meet social needs which can be neglected by traditional forms of private market provision and which have often been poorly served or unresolved by services organised by the state. Social innovation can take place inside or outside of public services. It can be developed by the public, private or third sectors, or users and communities – but equally, some innovation developed by these sectors does not qualify as social innovation because it does not directly address major social challenges. (2009, p.16)”

Murray, Caulier-Grice and Mulgan define social innovation as:

“new ideas (products, services and models) that simultaneously meet social needs and create new social relationships or collaborations. In other words, they are

innovations that are both good for society and enhance society’s capacity to act. (2010, p.3)”

Neither of these definitions describes social innovation in terms of the context or the magnitude of the impact for example.

However, they share two requirements. First of all, both of these definitions have a requirement of novelty (in the former it is embedded in the word ‘innovation’). Secondly, they share a request for being good for society, or in other words addressing social challenges, or answering a social need. The former requirement of novelty is not a feature that would differentiate social innovation from other types of innovation but the latter requirement of meeting social needs is specific for social innovation.

In the article “Rediscovering Social Innovation” in Stanford Social Innovation Review, Phills, Deiglmeier and Miller argue that social innovation is the best concept for understanding and producing lasting social change (instead of social entrepreneurship for example). They define social innovation as follows:

”A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.” (2008, p.36)

Their definition is chosen as the working reference for this thesis. Of all the descriptions of social innovation that were found during this research, Phills, Deiglmeier and Millers definition appears to be the most condensed yet inclusive. Their definition includes the possibility of social innovation happening in the private sector, where the main scope of this study is.

In many definitions, as well as the chosen reference definition, what defines social innovation is: for whom the value is distributed. It is distinctive to social innovation that the value

accrues mainly to the surrounding society as a whole. This different value distribution will later be taken under deeper examination. Creating value that is distributed towards society as a whole rather than a private individual (or organization) will be called ‘social value creation’ and the specific type of value that accrues to society as a whole will be called ‘social value’. How this value is different from conventional business value (profit) will be discussed later, as well as what this difference means for the process of social innovation. The relationship of creating social value and creating financial value will also be examined.

2.3 Social innovator needs to comprehend the social ecosystem

It has now been discussed that to become an innovation an idea must create value through diffusion to the society. This means that part of innovating is estimating how the idea fits and might diffuse to the relative context. This need also exists in social innovation. The chosen definition for social innovation: “A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals, suggests that a person working in the domain of social innovation needs to understand the

surrounding society. Carrier's notion on this matter goes as follows: *"Social value creation is really about making business decisions with a broader stakeholder perspective (2009, time 0:0:22)."* Comparable thinking has been presented by Bloom and Dees who call the surrounding settings that affect a social entrepreneurs work a 'social ecosystem'. They suggest an ecosystem perspective for social entrepreneurs and this view appears to be appropriate for social innovators in the private sector as well. After all, the goal, creating social value, is the same in both cases.

According to Bloom and Dees, the social ecosystem is fairly analogous with an environmental ecosystem because both are composed of complex webs of interrelated organisms and each of these organisms has its own role in the bigger picture. They write: *"A flowering plant, for example, relies on certain birds and insects to spread its pollen. The birds and insects, in turn, receive nutrition from the plant. Other birds and insects might feed on the flowering plant, and competing plants might rob the flowering plant of needed sunlight, water, and nutrients."* They continue by explaining that: *"Social ecosystems operate in much the same way. Social entrepreneurs get help from some individuals and organizations, give help to others, fend off threats from others, and compete with still others."* (2008, p.49)

According to them, the ecosystem framework stresses how vital it is to understand the complexity and dynamics of the widespread forces an organization faces (2008, p. 47). They call the different groups or individuals that affect or are affected by social entrepreneurs' actions 'players' and state that a social entrepreneur must be able to recognize the relevant players and their roles: *"To make ecosystem change more systematic, social entrepreneurs should create a map of their ecosystem that identifies all of the players and environmental conditions along with the relationships between them."* (2008, p. 47)

Understanding the players helps the social entrepreneur to estimate the possible impact. For this mapping Bloom and Dees suggest six types of stakeholders that they call 'players'. The six players are:

1. RESOURCE PROVIDERS.

They provide financial, human, knowledge, networking, and technological resources, or are brokers or intermediaries channeling these resources to those who want them. Problems in this category can seriously constrain social entrepreneurs' ability to achieve impact.

2. COMPETITORS.

Both, organizations that compete with the social entrepreneur's organization for resources, and those that compete to serve the same beneficiaries. Competition can be healthy if it helps channel resources to the most effective uses and beneficiaries to the most effective programs. It can also lead to fragmentation and inefficiency.

3. COMPLEMENTARY ORGANIZATIONS AND ALLIES.

Organizations or individuals that facilitate a social entrepreneur's ability to create impact. This includes partners who perform critical steps in the social entrepreneur's theory of change, individuals and organizations supporting the same cause, and people providing important complementary services.

4. BENEFICIARIES AND CUSTOMERS.

Clients, patients, customers, and others who benefit from social entrepreneurs' activities. In some cases, the paying customers are not the ultimate beneficiaries. In other cases, the beneficiaries may not interact with the organization at all. (Boom and Dees explain this with the example Mothers Against Drunk Driving, an organization that works to prevent drunk driving. In that case the primary beneficiaries are everyone who are at the risk of being injured by a drunk driver, even the ones who have never heard of the organization.)

5. OPPONENTS AND PROBLEM MAKERS.

They can be the ones creating the problems social entrepreneurs are addressing, undermining the ability of the organizations to achieve their impact, or opposing the efforts politically. Some of them may be difficult to identify because they are neutral about

the cause and do indirect, unintentional and sometimes even unknown damage to it.

6. AFFECTED OR INFLUENTIAL BYSTANDERS.

This is a general category meant to inspire social entrepreneurs to consider players who are not directly impacted, but are affected by their efforts or could influence their success. Especially important are organizations that could be harmed by the social entrepreneur's success. These players may ultimately become opponents or problem makers. (Bloom and Dees exemplify this by suggesting to think how labor unions could respond to a job skills development program teaching talented workers who would be willing to work for lower than union salaries.) Social entrepreneurs could also identify organizations that incidentally benefit from their success and make them allies or resource providers. There may also be parties who are currently neutral, such as the media, who could influence (both positively and negatively) the change.

Bloom and Dees state that the six categories are dynamic and players can have more than one role at a time. Players can also shift roles over time, and new players can emerge. They explain that the same organization can be both an enemy when it comes

to competing for the same resources, and an ally when it comes to working together to advocate for legislation to serve the same cause for example. (2008, p.50) While Bloom and Dees' article is about social entrepreneurship it feels suitable to apply their thinking to social innovation in other contexts as well. Their six players have some similarities with the elements on the Business Model Canvas, but there are also differences as will be discussed later. In conclusion, the most important takeaway from this chapter is that a social innovator needs to profoundly understand a multilayered network of interrelated variables in the surrounding society.

2.4 The diverse contexts of social innovation

Interest towards social innovation is growing across sectors

There are signs indicating that there is a growing interest towards social innovation. Mulgan has argued that there is now more money is flowing for NGO's and the civil society than before. According to him: *"Thousands of recent examples of successful social innovations have moved from the margins to the mainstream. They include neighborhood nurseries and neighborhood wardens; Wikipedia and the Open University; holistic health care, and hospices; microcredit and consumer*

cooperatives; the fair trade movement; zero-carbon housing developments and community wind farms; restorative justice and community courts; and online self-help health groups. (2006, p.145-146)”

It was mentioned earlier in reference to Murray, Caulier-Grice and Mulgan, that social innovation can happen in all sectors, public, non-profit and private, and the most creative solutions and ideas can often happen in the overlaps of these different sectors (2010, p.3). Dr Anne Stenros made a similar notion when she was interviewed (2012). Currently she works as the design director of KONE Corporation and was interviewed because of her versatile work experience in design including

Executive Director at Hong Kong Design Centre and Managing Director at Design Forum Finland. Stenros also has a personal interest in design as a driver of social change.

In the interview with Stenros the diversity of the arena of social innovation was discussed and according to her, innovation with particular focus on the societal impact can happen in various settings. Stenros summarized the diverse contexts of social innovation by mentioning that there are three P's of social innovation: People, Public and Private. According to her social innovation is as likely to happen under any of these contexts. The visualisation below is based on a sketch drawn by Stenros during the interview.

“The 3 P's of social innovation”

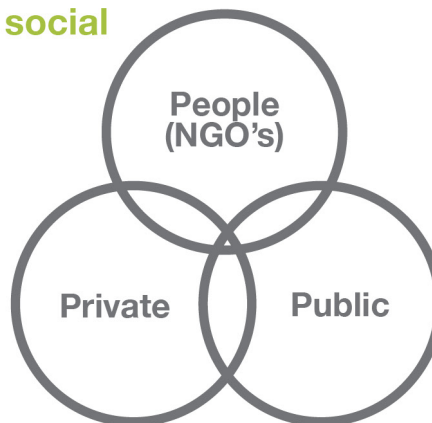


Figure 3:

“The 3 P's of social innovation”

How social innovation can happen across different sectors.

2.5 This study has an emphasis on the private sector

Recognizing that social innovation happens across different areas, the emphasis of this study is on the private sector. Interest towards social innovation is also growing in that domain, and this can be seen as part of a larger phenomena of companies starting to act more responsibly. The public's demand for 'social' from companies is growing and many companies are making large efforts to become more socially sustainable. One of these companies is Unilever whose CEO Paul Polman stated that: *"We thought about some of the megatrends in the world, like the shift east in terms of population growth and the growing demand for the world's resources. And we said, "Why don't we develop a business model aimed at contributing to society and the environment instead of taking from them?"*" In 2011 Unilever set its goal to double its revenue by 2020 while halving its environmental impact. When asked about this ambitious goal, Polman answered that there's also a business opportunity in this: *"We think that businesses that are responsible and actually make contributing to society a part of their business model will be successful."* He continued that: *"For proper long-term planning, you've got to take your externalities into account, in order to be closer to society. It's clear that if companies build this thinking into their business models and*

plan carefully, it will accelerate growth." (Ignatius, 2012, P. 112-113) It has also been mentioned that transparency is no longer a choice for companies, but what the business environment demands. It is useless to try to hide bad news or questionable business practices. People now have more means to expose those actions than ever before. (Holtz and Havens, 2009. p.22)

Paul Polman's arguments above and other notions about the growing importance of social innovation for businesses were a motivating factor in focusing on the private sector. There are also some personal reasons for this, which are related to my background and could be described as beliefs rather than facts. First of all, this choice was guided by my previous experience. All my work experience is at the private sector, the most important being from a design and marketing consultancy that works mainly with for profit companies. As I do not have any prior experience in the area of social innovation, focusing on the private sector means that there is at least something familiar, about the subjects of the study. Secondly, this choice of focus is based on my personal belief about capitalist system. This belief is that the competitive system is so far the best setting for driving innovation and maximising the potential usage of available resources. This thesis begins from a belief that the best effectiveness can be found in free competition where

the survival of an organization is depending on its own capabilities. An important capability of an organization in the competitive environment is effective usage of available resources (human, intellectual, material etc.) and efficient usage of resources is also very important considering the how much the population on the planet with limited resources is growing.

This thesis is also based on a belief that there is big potential for truly sustainable solutions in the private sector. This belief is based on the thought that in the private sector, in the ideal case the organization is self sustaining, meaning that it creates the value that runs the organization. The opposite is when organizations operations are fuelled by value created outside them (for example an NGO relying entirely on external funding). In the worst case the positive social impact of the example NGO is funded by money generated with very socially negative actions. This thesis focuses on the belief and understanding that when the organization that creates the positive social impact is self-sustaining, understanding the whole value chain and the overall impact is easier. Understanding what runs the engine creating the social value is important to avoid generating damage in other areas while benefitting other.

However, it is understood that no organization works in isolation and considering the full picture of any organization's impact in its environment is very challenging, but it may be even more difficult if the organization relies on external funding.

3 DISCUSSING SOCIAL VALUE

While defining social innovation, it was concluded that ‘who receives the value’ is a descriptive factor; in social innovation value is captured by the surrounding society as a whole. Now, a closer look at this specific type of value distribution associated with social innovation will be taken. Answers to the following questions will be searched. What is social value? Can it be discussed in the same manner as financial value? Are there ways to measure social value and should we try to do it? Is there a reason for private companies to be interested in social value?

Social value is not the most straightforward concept to understand and it is more complicated to grasp than financial value for instance. Let’s begin by discussing a misinterpretation of the term. Some people mistakenly see social value as the economic return of a company’s socially focused actions. Olsen and Lingane have illustrated this misunderstanding with an example of a coffee producer. The coffee producer grew some of their coffee sustainably and counted the \$0.50 per bag which consumers wanted to pay extra for that coffee as the social value of their sustainable farming. (2003 p.8) This understanding of social value may work for planning business strategies, but in the context of social innovation it is inadequate. Later it will be

discussed that social value creation can indeed have an impact on the profitability of a company, but social value needs to be understood in broader terms than those of the financial measures.

In his article ‘Creating Social Value’ in Stanford Social Innovation Review, economist Philip Auerwald explains the concept of social value. This, rational way of discussing social value that emerges from economic thinking, is interesting in contrast to the many discussions that often feel to be driven by emotions and values more than rationality. Naturally it can be questioned how much about social impact and social value can and should be rationalised. At the beginning of writing this thesis I had relatively low understanding about the basic theories of value creation in business. Therefore Auerwalds explanation, which begins from explaining the concept of private value creation and then moving on to social value, was very clarifying. The following chapter is greatly based on Auerwalds rationale in the article published in 2009.

3.1 How entrepreneurs create, deliver and capture value

To lay the foundation for understanding social value, let's begin by discussing the concept of private value. Auerswald has made a simple explanation of how entrepreneurial organizations create and claim private value. He uses the example of a simple economic transaction, in which a consumer buys an ice cream cone at Ben & Jerry's for \$2.50. The consumer would be willing to pay up to \$3 for the cone and the company has spent \$2 to produce and deliver it. The consumer sees the real value of that ice cream to be \$3 and therefore he leaves the transaction with 50 cents of perceived benefit that in economic terms is called 'consumer surplus'. (Auerswald, 2009, p.52-53)

Consumer surplus is: "An economic measure of consumer satisfaction, which is calculated by analyzing the difference between what consumers are willing to pay for a good or service relative to its market price." (Investopedia, 2012a)

Simultaneously, as the company only spent \$2 to make and deliver the product they get a profit of 50 cents that is called 'producer surplus'. What both the producer and consumer collect is 'residual value' - the value left over after the deal. Residual value is the reason for both parties to take part into the transaction. (Auerswald, 2009, p.52)

Explaining private value

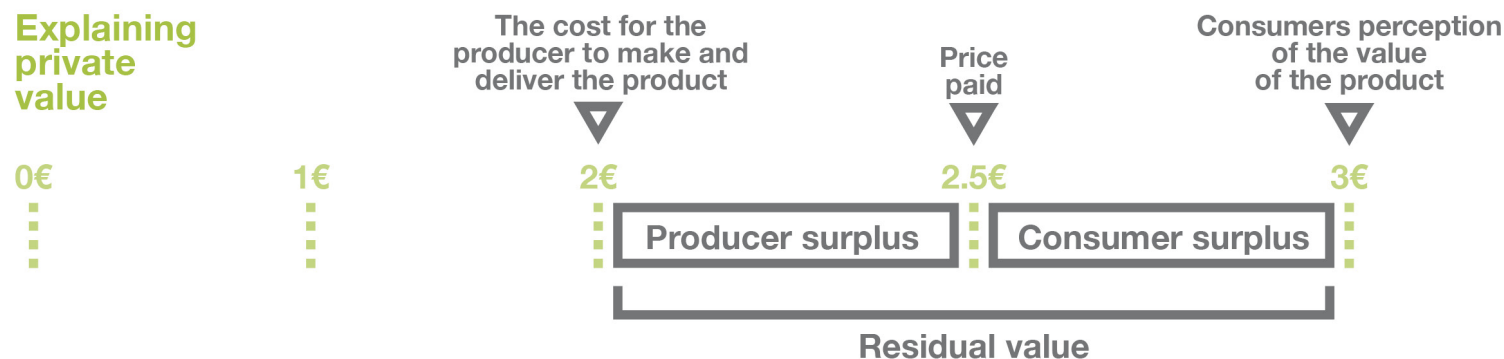


Figure 4: Explaining private value

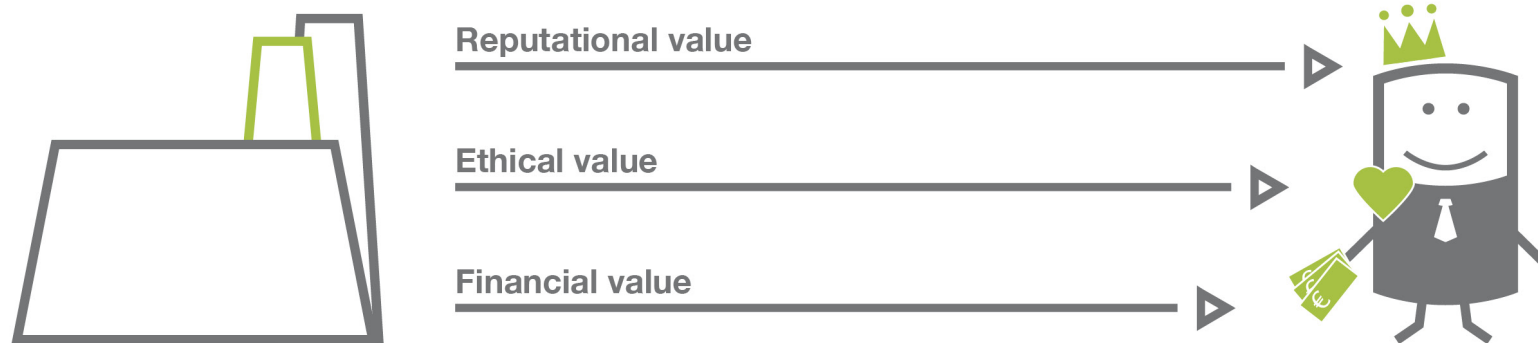
Auerswald continues by explaining that an entrepreneur can be defined as: *“the claimant of the residual value generated by a new venture.”* However, for an entrepreneur, financial value is not the only kind of value he can claim. Auerswald explains that an entrepreneur can create and claim three kinds of value through his organization. While the most apparent is monetary value, residual value claimed by the entrepreneur can have two non-financial forms as well: reputational value and ethical value. He explains reputational value by using the example of Muhammad Yunus, the founder of Grameen Bank, who possibly can claim that he has not received payments from his social enterprise, but who certainly has claimed lots of reputational residual from his venture. Probably the greatest example of the reputational value claimed by Yunus is the Nobel Peace Prize that he jointly received with the Grameen

Bank in 2006. In the sense of reputational value, Yunus is not different from a conventional businessman. The third type of value is derived from ethical reward and called ethical residual. Auerswald describes that ethical residual is the reason why companies with brands that communicate ‘good ethics’ can charge a premium price for their products, and that companies like the Body Shop use significant amounts of resources to communicate this ethical residual. (2009, p.53)

In what proportion an entrepreneur can capture these three types of residual value – financial value, reputational value or ethical value - varies from case to case, but according to Auerswald the creation of at least one of the three types of value is necessary for entrepreneurship. (2009, p.53)

Figure 5: 3 types of value captured by entrepreneurs

3 types of value that entrepreneurs can capture from their ventures



Nevertheless, entrepreneurs do not create value only for themselves. Auerswald explains that it is a quality of the competitive market that every company also creates value captured by others. He explains that each firm that offers new jobs keeps other companies from underpaying their employees. By offering new goods and services, companies keep other producers from overcharging otherwise potentially vulnerable consumers. He means that a company creates social value through growing the freedom of choice of consumers. *“The existence of entrepreneurial activity in markets and the eventual reinvestment of residuals do nothing less than create the possibility for economic growth and social progress.”* He continues that companies can also use the residual value they create as a resource to address societal challenges for example in situations where markets are not sufficiently developed. (2009, p.53) Many companies have for example set foundations to solve challenges that the society is unable to address. Such organization is for example one of the case organizations, The Big Issue, which is divided into two entities. The Big Issue Ltd, which is an organization that creates the residual, and The Issue Foundation, which is funded by the other halve of the entity.

3.2 Discussing social value

In Auerswalds explanation of private value, the amount of value created at any transaction is the gap between the producers cost and the consumers imagined maximum monetary value of the commodity (how much the person would be ready to pay for it.) It is possible to gain more understanding about the concept of social value by using this rationale of private value as foundation. However, the concept of social value is slightly more complicated.

Auerswald explains that, how much the consumer is ready to pay for a product does not necessarily reflect the ultimate benefit the commodity brings to him (for example an increase in happiness). How much a consumer is willing to pay for a certain commodity depends on many other things than how good the offering is. For example, the income level of a consumer can have great influence on that. Thus, when discussing social value, what the consumer sees as the maximum monetary value of a commodity is no longer a sufficient measure. Another aspect that makes assessing social value a tricky task is that concepts like happiness or wellbeing are very subjective and difficult to measure thus making them difficult to be adapted to the economic thinking - based on

measurable variables - where this rationale is rooted. (2009, p.54)

To understand social value something to replace the perceived monetary value of a product is needed to evaluate the consumer surplus. An increase in happiness is difficult to measure, but there are some concepts that are perhaps less subjective and thus fit the framework of economic thinking better. Auerswald explains that in the case of social value one can refer to human capabilities instead of commodities. In more accurate terms, one should substitute 'commodities and willingness to pay for them' typical for the conventional model with 'human capabilities and willingness to live'. (2009, p.54) According to Auerswald, capabilities are measurable. He explains this with the example of an eye clinic. Aravind Eye Care System, which is a collection of hospitals and clinics, founded in 1976 by Dr Govindappa Venkataswamy. Aravind's product is the restoration of sight. Its customers are the blind, many of them very poor. The challenge was to reduce the cost of a procedure and increase its availability. Venkataswamy developed a business model inspired by Ray Croc, the founder of McDonald's. In the last 30 years, Aravind gave sight for more than 2 million people. That Aravind offers its cataract removal procedures free for the poorest patients is only one side of the

equation - and the less interesting one. What makes Aravind special is that the value to the patients of the service provided - being cured of blindness - is so great. The difference between the price and private valuation: the consumer surplus is the significant matter. (2009, p. 54)

Perhaps the simplest way to understand Auerswalds explanation about the difference between social value and value in the context of profit maximisation is in the form of questions. Where the person aiming for profit maximisation would ask: "How much would the consumer be willing to pay for this?" the person aiming for social value creation asks: "How much would this increase the person's willingness and capability to live?"

Nevertheless, Auerswalds explanation is just one of the many efforts to describe the concept of social value, that have resulted in rather vague but comparable definitions. Wood and Leighton from DEMOS London have mentioned that: *"There is no single authoritative definition of 'social value'. Nevertheless, several leading organisations in this field do provide similar explanations of it. (2010, p.20)"* Lets discuss some of the definitions here, starting with Phills, Deiglmeier and Miller who define social value as follows: *"The creation of benefits or*

reductions of costs for society—through efforts to address social needs and problems—in ways that go beyond the private gains and general benefits of market activity. (2008 p. 39)” The most interesting aspect of their definition appears to be the demand for going beyond the value that society gets from entrepreneurship. They request an intention for benefitting the society. Back in 2001 Emerson, Wachowicz and Chun wrote about social value as follows: *“Social Value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. It is in this arena that most nonprofits justify their existence, and unfortunately it is at this level that one has the most difficulty measuring the true value created. Examples of Social Value creation may include such “products” as cultural arts performances, the pleasure of enjoying a hike in the woods or the benefit of living in a more just society.”* They continue their broad explanation of social value by quoting J. Gregory Dees as follows: *“Social Value is about inclusion and access. It is about respect and the openness of institutions. It is about history, knowledge, a sense of heritage and cultural identity. Its value is not reducible to economic or socio-economic terms.”* They continue by explaining the diversity of the term as: *“Social Value can be found in anti-racism efforts, some aspects of community organizing, animal rights advocacy and folk art. It*

has intrinsic value, but can be difficult to agree upon or quantify.” (2001) As the writings about social value discussed in this chapter show, social value can have countless forms. Social value emerges when the society is benefitting as some of its members’ capability and willingness to live grows. In conclusion, from the inclusiveness or even certain kind of vagueness or fuzziness about these social value definitions, the assumption can be made that in social innovation, a lot of consideration and a profound understanding about the surrounding society is needed. There are no simple ways to quantify social value, and perhaps too much rationalizing about social value is risky and sometimes unnecessary.

4 SOCIAL VALUE AND BUSINESS

In 1970 the famous Milton Friedman, a Nobel laureate in economics, stated in New York Times that: *"The social responsibility of business is to increase its profits. (1970, p.1)"* In his column Friedman argues that company executives should solely care about maximizing the profit of the stockholder and not care about the societal impact of their company. He justifies his statement by arguing that if the executives begin to consider social matters instead of plainly focusing on profit maximization they start to impose taxes, which is supposed to be done by the government. Friedman rather strongly states that: *"The businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are - or would be if they or anyone else took them seriously - preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past*

decades. (1970, p.1)" He continues his bold argument as follows: *"What does it mean to say that the corporate executive has a 'social responsibility' in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers."* He describes the business man with a "social responsibility" as someone who would for example: *"...refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation."* (1970, p.1)

Friedman's arguments reveal that he quite strongly believes that a company employee making decisions based on ambitions for social sustainability is unavoidably harming financial profitability. However, the global business environment has changed tremendously since Friedman wrote his column, and perhaps also the relationship between societal matters and business profitability needs to be revisited. In this section, a brief overview on some current challenges of capitalism is made, followed by discussing the relationship between social value creation and profitability.

4.1 Current challenges of capitalism

Market capitalism has shown its power as a great machine for wealth creation, but there are also diverse challenges. It has been argued that market capitalism is facing networked threats, and that it can be disastrous, when global financial structures are fragile and not transparent, and the gap between rich and poor nations and between people widens and the traditional protectors of society — business, industry, government, and international institutions — are unable to address these and other problems. (Bower, Leonard & Paine, 2011 p.106)

There are many forces that may seriously damage the market economy in the coming decades, as Bower, Leonard and Paine explain: *"Because market capitalism is part of a complex sociopolitical system, these forces arise from multiple sources. Some are fueled by negative consequences of the market system and feed back into it in disruptive ways. Others arise from sources external to the system. (2011, p.107)"* The eleven disruptive forces that they refer to are shown in the following figure.

Figure 6: Forces disrupting the global market system

Forces disrupting the global market system.



Porter and Kramer have also noted that market capitalism has numerous large challenges and they explain that business is growingly seen as a key cause for social, environmental and economic problems. They state that the public often sees that companies are making profit at the cost of the broader society, and continue that, the problem is even bigger because businesses that practice corporate social responsibility (CSR), and communicate about it, draw more attention to societal issues and are sometimes even more accused for the failures of the society. According to them government and civil society are also partially responsible for the recent problems of the capitalist system because they have attempted to address social weaknesses with solutions that are at the expense of business. They explain that it is a vicious circle where trust in business leaders has diminished, causing political decision makers to set tighter policies that weaken competitiveness and obstruct economic growth. (2011, p.64) It has also been stated that the trust in business has lowered because as companies have grown to multinationals, it has created a broader chasm between the customer and the employee. For handling a global customer base, companies started to build customer service divisions that communicated with customers with programmed responses, in unclear corporate language. This widened the gap between the customer and the company. As companies grew, they

simultaneously became more opaque, keeping operations, leaders and decision-making behind closed doors. Being opaque meant that revealing problems and failures became unacceptable. Those became carefully hidden. Later on as mistakes got revealed the trust in corporations started to diminish. (Holtz and Havens, 2009 p.15) Major corporate scandals, such as Enron and massive banker bonuses, followed by the bailouts needed because of the risks taken by banks, have simultaneously decreased people's trust in corporations and raised expectations (Saul, 2011, location 2176).

Also Porter and Kramer state that to some extent companies can blame themselves for the current difficulties. According to them, many businesses are trapped in an outdated approach to value creation – an approach that has emerged over the past few decades. They claim that these companies: *“continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success.”* They argue that companies can answer some of the challenges by breaking away from this conventional shortsighted view on value creation. (2011, p.64) It has even been argued that the current economic model has to be entirely re-thought: *“The old system is broken beyond repair.*

A new economic model is needed. There can be no return to the old economy, fuelled by debt – and by carbon. New ways of thinking about the economy are urgently needed, that challenge the primacy of financial markets and debt-fuelled growth. (Meadway, 2012 p.2)”

As the world becomes more transparent, companies need to become more social

One significant change in the business environment is the rapid development and spreading of information technology. Because of that, the public now has access to lots more of information. It has been stated that consumers now have more power over companies than ever before. Companies used to have the power because they had much more knowledge about their products and services than their customers. Nowadays, the abundance of information means that consumers are savvier about companies’ offerings, and can demand more. Consumers also have more options than ever before and are less dependent on what is available at their home street. (Bloom, 2010 p. 6-7) The growing transparency means that it is more difficult for companies to keep things to themselves and hide their imperfections. When consumers can demand more, companies need to do more, in terms of ‘social’ as well.

While it is beyond the scope of this study to discuss the challenges of capitalism extensively, it is worth mentioning that these challenges, together with the rapidly growing number of people on our planet with limited resources, indicate a growing need for novel thinking and action. In conclusion: there are numerous emerging challenges in the business environment and consumers are demanding more from companies. This means that innovation and especially social innovation is perhaps more important today than ever before. There is demand for large-scale systemic innovations as well as small-scale social innovations. We need many new ideas for human race to prosper within the limits of the global ecosystem.

4.2 The relationship between social value creation and profitability

It is an established assumption that doing things to benefit the society is costly for business

What is noticeable from Milton Friedman’s statement in New York Times is an assumption that maximising profit and environmental and societal moral don’t go hand in hand. Milton is not alone with his opinion and as Porter and Kramer explain, there is a general belief of trade-offs between economic

efficiency and social progress, and that this assumption has been institutionalized in decades of policy choices. (2011, p.64) Olsen and Lingane have made the same observation and claim that: *“Conventional wisdom dictates that financial and social goals are in opposition: economic development versus environmental protection has been framed as a zero sum game in the United States for decades (2003, p.2).”* Freeman and Velamuri call it ‘separation thesis’ and state that: *“This separation is an idea that reaches very deeply into Western culture. It is reinforced by the disciplines of business, by our major theoretical frameworks in management, and by executives and business thinkers themselves.”* They continue that it also has a negative impact on how the general public perceives capitalism: *“At its worst it generates an absolutely destructive idea of capitalism, i.e., that capitalism is about anything goes.”* (2005 p. 2-3) According to Battilana et al: *“The organization of the commercial and social sectors has long been governed by an assumption of independence between commercial revenue and social value creation.”* They continue that this causes challenges for organizations aiming to combine the two types of value creation: social and profit. (2012, p. 51) All the authors cited above have made very similar arguments about how environment and society are commonly seen as enemies of profit. However, there are also contradicting views on this.

Battilana et al. argue that today, it is evident that the independence of social value creation and commercial profit is a myth (2012, p 52). They, alongside others have suggested new ways to see value creation in organizations.

Emerson, proposes that: *“What is required is a unifying framework that expands the definition of investment and return beyond the historic one of finance and toward a new definition capable of holding a broader understanding of value than that most frequently reflected in traditionally endorsed financial operating ratios.”* He suggests that the whole notion of value creation needs to be re-shaped into a broader understanding than the one of the financial. (2003, p. 38) Allen has presented similar thoughts as follows: *“The value being pursued today goes beyond our traditional understanding of the term. Yes, a large part of value creation has to do with maximizing economic value and financial returns for shareholders. Yet, it is increasingly obvious that in order to maximize economic value one must consider not simply the easily defined indicators we have traditionally relied upon, but rather the less easily defined aspects of value that are extra-financial and often social and/or environmental in nature. (2011)”* Social value creation and social capital market (SCM) are seen as a new opportunity for companies: *“The SCM is challenging businesses to find new ways*

to create value. Think of the SCM as a huge social arbitrage opportunity for companies – indeed, social change may be the last great untapped business market.” (Saul, 2011 p.15, loc, 371)

As the authors cited above argue, there is a possibility in combining social value creation and financial value creation in the business environment of today. In the next section, the relationship between social value creation and competitiveness is examined in a more precise, yet in a still theoretical level.

4.3 Social value creation and competitiveness

According to Porter, in theory there are two ways a company can improve its competitiveness. A company can either improve its operational effectiveness or increase its uniqueness and attractiveness through building a stronger strategic fit. He states that: *“A company can outperform rivals only if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at a lower cost, or do both. The arithmetic of superior profitability then follows: delivering greater value allows a company to charge higher average unit prices; greater efficiency results in lower average unit costs.”* (1996, p. 62) Accordingly, he argues that there are two agendas inside a company; the operational agenda, which involves improvement of the company’s effectiveness

everywhere possible and the strategic agenda, which is about defining and reaching a unique positioning for the company. The former agenda is about finding the best way to use the resources (performing similar activities better than rivals), the latter is about making the company as appealing to its customers as possible and making it stand out from the competition (performing different activities from rivals’ or performing similar activities in different ways). (1996, p. 72) Obviously Porter’s theory is just one of the many theories about business competitiveness, but it appears to be a simple and solid foundation for discussing the relationship between social value creation and competitiveness.

The relationship between environmental impact and competitive advantage has been examined by Lahti-Nuuttila, whose research builds on Porters theory of two ways to increase competitiveness. According to Lahti-Nuuttila the environmental issues can simply either harm or benefit the company’s competitive advantage by increasing or lowering costs or demand. First of all, a company’s ‘environmental competitiveness’, as he calls it, can be strengthened by lower environment-based costs. Secondly, it can be strengthened through grown desirability that emerges from increased environmental image. According to him, costs are often related

to regulations and environmental desirability is linked to customers. (1998, p.17 translated from Finnish) Lahti-Nuuttilas research focuses on the environment, but it seems appropriate to expand Porters model of competitiveness to social value creation as well. 'Social competitiveness' as well, could arise in two ways; either increasing the company's effectiveness, or increasing demand.

Following Porter's theory of two company agendas in driving profitability – operational and strategic - and inspired by Lahti-Nuuttilas work, two models of how social innovation can affect a company's competitiveness can be drawn. In the first case, the operational efficiency of a company is increased by social innovation. For example a social innovation that helps employees or external stakeholders enjoy their work more, could lead to higher effectiveness. The second possibility is that the desirability of the company's offering grows. For example, a company that creates a novel solution with positive social impact and successfully communicates that to its customers can stand out from the competition, strengthen its position, and make customers want to pay more. How effective differentiator social innovation will be in the future, depends on how valuable consumers will see these matters. This is hard to estimate, but as will be discussed later there are signs of western consumers

having a growing interest towards socially conscious companies.

4.4 Different mind-sets: Corporate social responsibility and social value creating business models

Corporate social responsibility (CSR) is probably the most established term for discussing the socially motivated actions of companies. However, there have also emerged other ways to look at social value creation that don't necessarily fit under the umbrella term CSR. In this chapter a brief overview on CSR will be made, including discussing some of its limitations, and alternative views to social value creation.

The limitations of corporate social responsibility

Corporate social responsibility - CSR - is perhaps the most common term for the socially and ethically motivated actions of businesses. Rahman has studied CSR definitions from 50's to the 21st century and compiled a list of 10 dimensions that fit under the term corporate social responsibility. These ten dimensions are:

- i. Obligation to the society
- ii. Stakeholders' involvement
- iii. Improving the quality of life
- iv. Economic development
- v. Ethical business practice
- vi. Law abiding
- vii. Voluntariness
- viii. Human rights
- ix. Protection of Environment
- x. Transparency & accountability (2011, p. 173-174)

Rahman's list shows that the different dimensions of corporate social responsibility include a wide range of ambitions and actions. Rahman states that the CSR industry is emerging in the 21st Century and large corporations are setting up CSR departments and hiring CSR managers and consultants. He

continues that there is also a great momentum in Universities that hold CSR conferences and where researchers contribute to the new literature in the CSR field. Rahman describes the growing importance of CSR also as follows: *"The public is watchful now more than ever before on what firms are saying about their corporate social responsibility and what they are doing in practice. The collapse of Enron in 2001 has shaken the stakeholders world wide to pressure the corporations to become more transparent and exhibit better accountability..."* (2011, p.172-173)

Though corporate social responsibility may be of growing interest and importance, there are several authors who question the sufficiency of CSR as a vehicle for pursuing towards true social and environmental sustainability. Many see CSR as a result of the conventional thinking, discussed earlier, in which social value creation and profitability are at the opposite ends of the scale. Freeman and Velamuri argue that: *"Corporate social responsibility reinforces the separation thesis, or the idea that we should separate business from ethics or society. This separation is an idea that reaches very deeply into Western culture. It is reinforced by the disciplines of business, by our major theoretical frameworks in management, and by executives and business thinkers themselves... Viewed in this way, corporate social*

responsibility becomes an add on to ameliorate the supposedly harsh consequences of this view of capitalism.” (2005, p.2-3)

What they mean is that corporate social responsibility as such is not a sufficient solution since it is an add-on and it is not fully integrated as part of the business. Porter and Kramer share this critical outlook and state: “... *most companies remain stuck in a “social responsibility” mind-set in which societal issues are at the periphery, not the core (2011, P.64).*” Corporate social responsibility stems from a mind-set in which: “*philanthropy is philanthropy and business is business (Saul, 2011 p. 40).*”

The critics of conventional CSR claim that CSR as such is a result of old fashioned thinking and can foster the negative view on the relationship between social responsibility and competitiveness. But if the CSR model is not sufficient, what should companies do? The alternative point-of-view proposed by these authors who question conventional CSR will be discussed next.

Thinking beyond corporate social responsibility: hybrid organizations embed social value creation as part of the business model

There is a need for novel thinking about the social responsibility of business. According to Saul, many companies are in a state of corporate social confusion (2011, p.17). He explains that people in companies are puzzled: “*Because in today's social capital market, the old social contract mind-set where doing good was good enough - is no longer enough. To win in the social capital market, companies must transcend this way of thinking. Stakeholders in the social capital market have a much higher set of expectations for companies.*” (2011, p.20)

But if companies are expected to do more than what is associated with CSR, how can they do it? Is it possible to get over the “*social contract mind-set*”? Porter and Kramer suggest that it is possible and argue that it is indeed the job of companies to do this. According to them it is the responsibility of companies to bring business and society back together and make capitalism work for the good of society. As a solution to the current challenges of capitalism, they suggest a concept of ‘shared value creation’ meaning that a company creates both economic value and value for society simultaneously by

addressing the needs and challenges of society. This model is different from CSR because here social value and economic value are connected, not separate. They make a strong argument that the sole purpose of the corporation needs to be redefined into shared value creation. According to them, this redefinition will not only drive future innovation and productivity growth, but also reshape capitalisms relationship to society and legitimize business again. It is a bold statement, but they reason that there are promising elements of this new model emerging. Yet they continue that an overall framework for guiding these efforts is missing and most companies still remain in a “*mind-set of social responsibility*”. (2011, p.64)

Porter and Kramer claim that a more effective way than CSR for solving societal challenges is that businesses continue working as businesses in solving them: “...*businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face.*” They are not the only ones who think there are more effective ways for companies to have a positive impact than what can be achieved through engaging in charity like activities. One of the like-minded business thinkers is Howard Schultz - CEO of Starbucks – who states that: “*The solutions are not obvious. Writing checks for charity, for example, won't cut it. We must go deeper. We must*

invest the same creative muscle and resources we put toward our products into neighborhoods. We must ask how to fulfill the very real needs of communities in ways that are relevant to our business, take advantage of our strengths while being cost-effective and, yes, potentially profitable.” (2011) His thinking is similar to Saul's who argues: “*By harnessing the full resources of the business, the engine, not the fumes - companies have the potential to create social impact that is more direct, lasting, and profound. And most importantly, social innovation creates the incentives for business to want to do more.* (2011, p.39)” For Saul, social innovation is indeed about combining social value and business value by leveraging the core business of companies to social value creation: “*Social innovations use the engine of the business itself - the primary profit-making functions - to create economic value through social change. Social innovation initiatives are executed directly through the functional business units (such as marketing, sales, operations, R&D, HR)*” (2011, p.35)

The authors cited above have made almost identical arguments. All of them see the positive qualities of the free market system. All of them see the effectiveness of the business machine, as also does Mohammad Yunus. He states that: “...*there are many things that free markets do extraordinarily well. When we look at*

countries with long histories under capitalist systems—in Western Europe and North America—we see evidence of great wealth. We also see remarkable technological innovation, scientific discovery, and educational and social progress. The emergence of modern capitalism three hundred years ago made possible material progress of a kind never before seen. Today, however—almost a generation after the Soviet Union fell—a sense of disillusionment is setting in.”(2008, p.16) All the authors referenced in this chapter suggest that instead of fighting against the business machine (often seen as the key cause of many societal challenges), the powerful mechanisms of business should be harnessed into creating social value. In other words, for maximum impact, social value creation needs to be baked in the core business model of companies. Battilana et al. call this a ‘hybrid ideal’, a hypothetical organization that is entirely integrated – “*everything it does produces both social value and commercial revenue.*” (2012, p.52)

What are the benefits of baking social value creation as part of the business model?

While the difference between applying CSR and a business model that creates social value may sound like plain rhetoric, it is more than that. There are a few reasons why replacing CSR

with pursuing for a “*hybrid ideal*”, may work better. Firstly, when social value creation is integrated in the core business, everyone in the organization is working towards the same goal. The company has a unified strategy with no separation of agendas between the business department and the CSR department. “*...managers do not face a choice between mission and profit, because these aims are integrated in the same strategy (Battilana et al. 2012, p. 52).*” Secondly, when social value creation is embedded at the core of the business, it means that if the business grows, the positive social impact grows simultaneously. “*...the integration of social and commercial value creation enables a virtuous cycle of profit and reinvestment in the social mission that builds large-scale solutions to social problems (Battilana et al. 2012, p. 52).*” Thirdly, when social value creation is joined with the core business, the company’s main competence, human resources, are also leveraged for creating social value. Additionally, if a social need can be answered by a business solution, in theory there is also better potential for true sustainability. As the social challenge is solved by an organization that is able to maintain itself, the risk of unnoticed negative externalities is lower. There is a lower probability of a situation where a social problem at place A is solved by a solution that is dependent on value created at place B, by potentially creating negative social impact in place B.

It is important to remember that to change how an organization creates value is a rather fundamental shift. Even though it is not the main focus of this thesis, some deliberation on where the biggest potential for these new models to emerge is, has its place here. Albeit the existing large multinationals beat new ventures on scale, they may not be the most fertile soil for planting this change in value creation. Perhaps the incumbent organizations, with dated patterns of financial value creation embedded in their functions and culture, are not the best catalysts of a change like this. Maybe the current challenges of the society and business reveal many opportunities for new ventures and entrepreneurs to bloom. Perhaps tools like the business model canvas can help, or maybe a new tool with more emphasis on social value is needed? At least the demand for organizations that create social value seems to be stronger than ever.

5 BUSINESS MODEL CANVAS

5.1 Introducing the Business Model Canvas

The Business Model Canvas (BMC) is a tool designed to help plan a new or developing an existing business model. Alexander Osterwalder and Yves Pigneur present BMC in their book *Business Model Generation* published in 2010. The book has been very successful, by January 2012 the book has sold more than 220 000 copies and it has been in the Amazon top 200 for more than two years (Dager, 2012).

Popularity of the book and the buzz around the BMC were important reasons for choosing it as a topic of evaluation in this study. I wanted to see if the tool is really as good as the authors and the hype suggest, or is the success more a result of good marketing. (In this study the terms 'BMC' and 'canvas' refer to the Business Model Canvas as presented in the book *Business Model Generation* by Osterwalder and Pigneur published in 2010)

According to Osterwalder and Pigneur the BMC is a: *"hands-on tool that fosters understanding, discussion, creativity and analysis"* (2010, p. 43). They have defined a business model as what: *"describes the rationale of how an organization creates, delivers and captures value"*, and BMC is a blueprint that consists of nine elements of a business model (2010, p.14-17). Osterwalder and Pigneur state that these nine elements cover four main areas of business, that are: customers, offer, infrastructure and financial viability (2010, p.15). The nine elements on the BMC are called 'building blocks' and they are placed in a particular order on a sheet. The users of the canvas are guided to make a large printout of it, stick that on a wall and 'sketch out' their business model, preferably in a group, by using Post-it notes (2010, p. 42 & 45).



Figure 7: The book 'The Business Model Generation' in the top 10 section of a bookstore in Hong Kong International Airport, March 2012.

5.2 The nine building blocks of the Business Model Canvas

The nine building blocks that according to Osterwalder & Pigneur cover the main areas of business are:

1. Customer Segments

- An organization serves one or several Customer Segments.

2. Value Propositions

- An organization seeks to solve customer problems and satisfy customer needs with value propositions.

3. Channels

- Value propositions are delivered for customers through communication, distribution and sales Channels

4. Customer Relationships

- Customer relationships are established with each Customer Segment

5. Revenue Streams

- Revenue streams result from value propositions successfully offered to customers.

6. Key Resources

- Key resources are the assets required to offer and deliver the previously described elements...

7. Key Activities

- ... by performing a number of Key Activities.

8. Key Partnerships

- Some activities are outsourced and some resources are acquired outside the enterprise.

9. Cost structure

- The business model elements result in the cost structure.

The nine building blocks are placed on the sheet so that those on the right define the value an organization creates, and on the left are elements required from the organization to create that value efficiently (Osterwalder & Pigneur, 2010, p. 49).

There is a resemblance between the two-sided layout of the BMC and Michael Porters theory of two company agendas (operational, that focuses on efficiency and strategic, that focuses on value) that was discussed earlier in chapter 4.3.

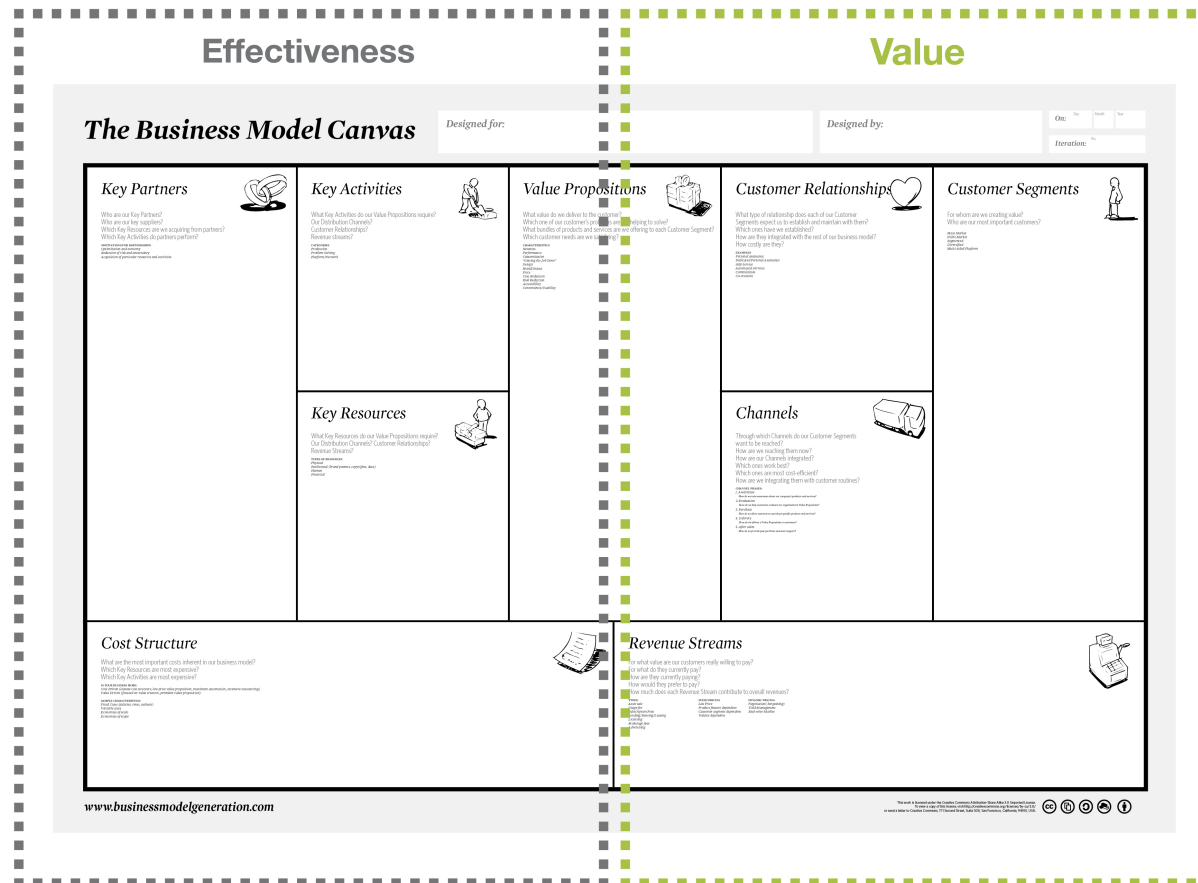


Figure 9: The two sides of The Business Model Canvas

5.3 Business Model Generation borrows from the design world

For a trained designer who reads the book Business Model Generation that guides to use the canvas, many things can seem familiar. The book introduces many methods and thoughts recognizable to designers. Osterwalder and Pigneur also mention that many of the techniques and processes are rooted in the design world. The book has an entire chapter dedicated to design, more precisely, explaining how design techniques ought to be used with BMC for developing business models. The discussed ‘design techniques’ are: customer insights, ideation, visual thinking, prototyping, storytelling and scenarios (2010, p. 125). It is beyond the limits of this thesis to discuss each of these techniques extensively, but it is worth noting that throughout the book several methods that are commonly associated with design are presented. The user of the BMC is also proposed to have a ‘design attitude’, which according to Osterwalder and Pigneur includes: *“a willingness to explore crude ideas, rapidly discard them, then take the time to examine multiple possibilities before choosing to refine a few – and accepting uncertainty until a design direction matures (2010, p.164).”*

5.4 Authors claim that the Business Model Canvas also works for ‘beyond-profit business models’.

Osterwalder and Pigneur claim that using BMC is not limited to for-profit businesses, but that it can be applied to non-profit organizations, charities, public sector entities and for-profit social ventures. The authors call these models ‘beyond profit business models’ and present two different ways to use the canvas for these purposes. The first way to use the canvas is ‘third party funded models’ and the second, ‘triple bottom line business models’. (Osterwalder & Pigneur, 2010, p.264-265) These two applied ways of using the canvas will be discussed next.

Third-party funded models

Osterwalder and Pigneur explain that in a ‘third-party funded business model’, who receives the product or service is not the one paying, but the financier is a third party – a donor or the public sector – who doesn’t expect to receive direct economic benefits from the exchange. They suggest the user of the canvas to place both the ‘donor’ and the ‘recipient’ in the bucket ‘customer segments’. Concurrently, the value proposition consists of both ‘mission’ aimed for the ‘donor’, and ‘product or

service' aimed for the 'recipient'. They continue that this organizational model has a risk that incentives for creating value can become misaligned. What they mean is a possible situation where the stakeholder making the donations becomes the main customer instead of the recipients. In other words, there is a risk that the incentive to create value for the donors may overrule the will to create value for the recipients. (2010, p.264) Battilana et al. have made a similar notion and call it 'mission drifting'. According to them "...*organizations are still subject to the risk of mission drift, as they may give priority to profit seeking over social mission.*" (2012, p. 54)

Though Osterwalder and Pigneur associate the risk of 'misaligned value creation incentives' with third party funded organizations, it is also what the critics of TOMS Shoes claim to have happened. They argue for example that: "*Toms isn't designed to build the economies of developing countries. It's designed to make western consumers feel good.* (Davenport, 2012)" The critics mean that TOMS Shoes actually works better at creating emotional value for the western 'donators' instead of creating real value for the 'recipients'.

Triple bottom line business models

'Triple bottom line' refers to companies that describe separate financial, social and environmental "bottom lines" and measure their economic value, degree of social responsibility and environmental responsibility (Investopedia, 2012b). For use with triple bottom line business models, Osterwalder and Pigneur suggest adding two buckets to the BMC. The buckets to be added are 'social end environmental benefits' placed under 'revenue streams' and 'social and environmental costs' placed under 'cost structure'. It is argued that: "*Just as earnings are increased by minimizing financial costs and maximizing income, the triple bottom line model seeks to minimize negative social and economical impact and maximise positive.*" (Osterwalder & Pigneur, 2010, p. 265)

During the case study in the following chapter, both of these adapted ways of using the canvas will be applied and used as a basis for evaluating the canvas' effectiveness for social innovation.

6 CASE STUDY: MAPPING FOUR ORGANIZATIONS ON THE BUSINESS MODEL CANVAS

6.1 About the chosen case examples

In the global market, a complex and networked economic system, it is virtually impossible to be aware of all the direct and indirect effects an organization's actions might have. Thus claiming that an organization's overall social impact is entirely positive is always rather questionable. Discussing these matters is multi-layered and can go to philosophical levels and values. However, there are companies who claim to be socially more positive than their competition, and companies that break conventions in how business is done. These companies often claim to be fuelled by ambitions for creating a positive social impact. In this chapter, some of these companies are discussed. The chosen case examples can be viewed as deviants that most likely are far from perfect, but whose philosophy goes beyond the conventional model of pure profit maximisation. All the case examples communicate social value creation as part of their reasons for existence. What they claim the positive impact to be differs from case to case. All the organizations chosen as

examples have also been financially successful in recent years. The success of a company is determined by numerous factors, but as can be seen from these examples, there is a possibility that creating social value has helped them to have financial success as well. It is beyond the scope of this thesis to define how much of these organizations' success can be justified by 'social competitiveness', but nevertheless, it appears that social value creation has worked in favour of them. The example organizations are: Tom's Shoes, Fairtrade, The Big Issue and the \$4 Prescription Drugs Program of Walmart.

In this chapter, each of the four case examples will be briefly overviewed, followed by unbundling their organizational models according to the Business Model Canvas. The objective is to gain more understanding about both the canvas and the example organizations. Later, it will be evaluated how well the exercise of breaking the organizations apart according to the nine elements on the canvas helped to understand how these organizations work and especially how they create social value. The goal is to generate deep enough understanding of the canvas to be able to reflect against the literature background on social innovation. This will be the basis for estimating the effectiveness of the Business Model Canvas in fostering social

innovation and perhaps suggesting additional elements or finding other areas for further development.

6.2 TOMS Shoes

The first example, TOMS Shoes, is a successful brand whose marketing communications have a strong emphasis on their social ambition. What they promise is rather simply to donate a pair of shoes to a “child in need” for every pair of shoes they sell. Exact sales numbers are not available, but today TOMS Shoes are sold in at least 37 countries and according to them, as of September 2010 more than a million pairs of shoes has been donated – and sold. This is a noteworthy number considering that the company was established as late as 2006. Perhaps the most interesting aspect of their approach to social value creation is the simplicity of their promise. The way of donating - ‘One for One’ - is very easy to understand, and this simplicity is a possible reason for their success. It appears that this model has helped them to gain ‘social competitiveness’ through differentiation. They started with shoes but they have also copied the “One for One” concept to sunglasses, and now they promise to help in giving sight to one person for every pair of TOMS sunglasses sold. (TOMS Shoes, 2012)

As of September 2010, TOMS had donated shoes in 23 countries and had factories in three countries: China, Argentina and Ethiopia. In relation to the information and marketing about the donating, there is relatively little information available about manufacturing the shoes. However, on their website they state that their factories are required to operate under sound labour conditions, pay fair wages and follow the International Labor Standards by the International Labor Organization. However, the information on the social impact of TOMS is relatively slim, except for what is related to the ‘One for One’ donation concept. (TOMS Shoes, 2012)

While TOMS Shoes has been very successful, their success has not come without criticism. They have been accused for not solving the actual social challenges in the communities they claim to help. It has been stated that their act of donating free shoes is little more than a short-term fix in a system in need of long-term, multi-faceted economic development, health, sanitation, and education solutions (Davenport, 2012). Furthermore, it has been argued that TOMS Shoes, like other charitable organizations bringing free goods to developing countries, may actually harm the local economies in the communities they intend to help. This damaging happens as their donations set up an unsustainable economy that is based on aid, thus harming the local producers and sellers. (Davenport, 2012., Freschi, 2012) The criticism of TOMS Shoes is part of a broader debate whether free giving of new or second hand goods is a working model of aid, or if it actually does more harm than good for the poor communities. For example TOMS Shoes “A Day Without Shoes” -campaign has motivated a counter-campaign “A Day Without Dignity” promoting the negative impact of handing out free goods in developing markets (The Charity Rater LLC., 2011)

The criticism towards TOMS Shoes exemplifies the complexity of the matters related to social value creation. The criticism also shows how promoting a company’s social value creation can quickly backfire against the business if a (real or perceived) flaw is found. Whether their aid is useful or not, what they have managed to do is to build a strong conceptual connection between the charitable giving and product they sell, and turn it into effective marketing. They have turned a simple logic of charitable giving to a successful business, and into a broadly known brand.

6.2.1 TOMS Shoes on the Business Model Canvas

The 'Third-Party Funded Models' way of using the canvas suggested by Osterwalder & Pigneur was adapted for TOMS Shoes. Relying on information available online, it was somewhat challenging to fill all of the nine building blocks.

Especially the elements on the left that are more internal 'backstage' elements were somewhat difficult to fill with relevant information. However looking for the information required for the different elements and mapping them on the canvas was very helpful in understanding how TOMS Shoes business model works.

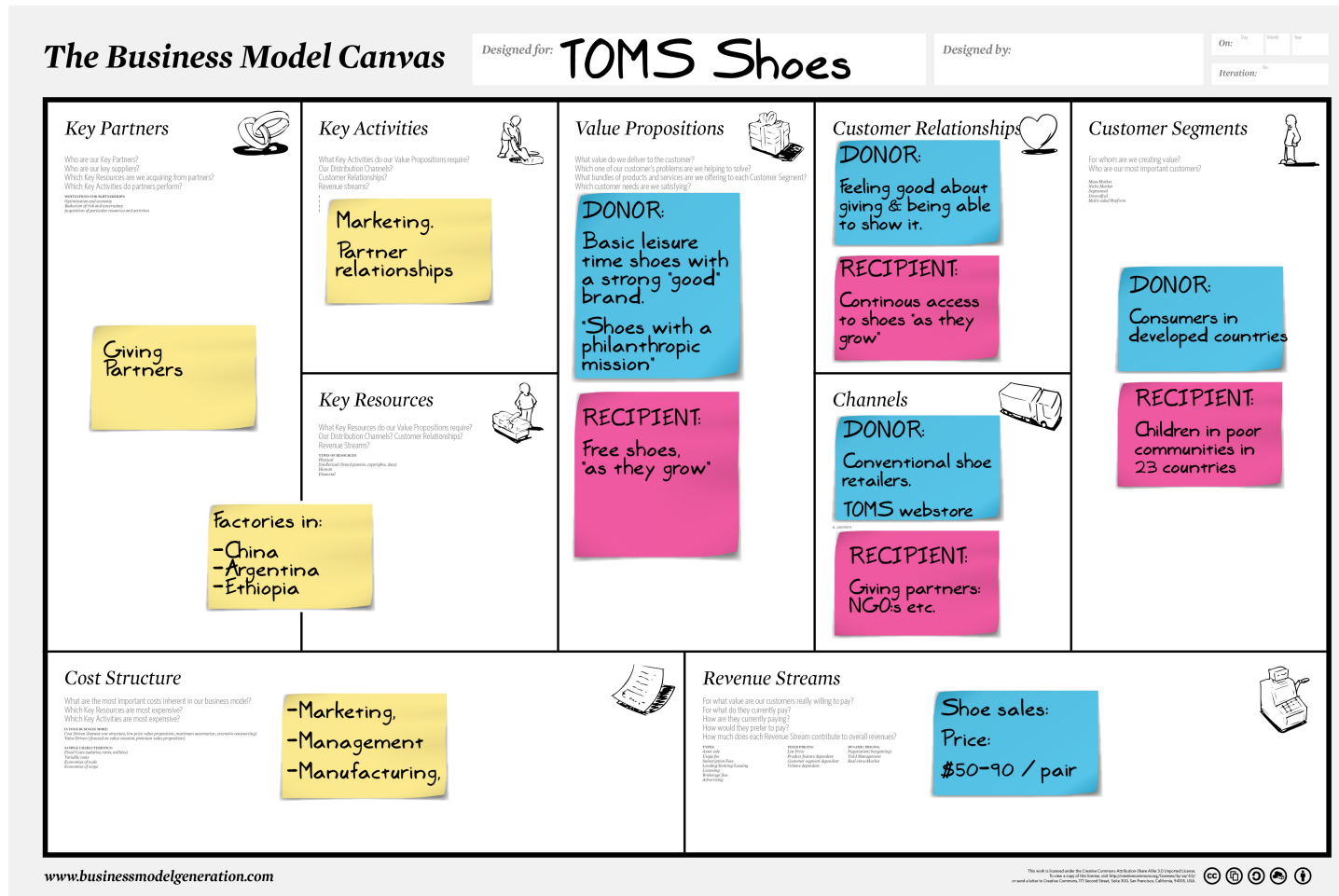


Figure 10: TOMS Shoes on The Business Model Canvas

It was easy to note how the company is split into two entities, value capturing and value donating. Placing the elements on the BMC helped to understand how these two entities are actually in practice only slightly connected. The two entities serve different customer segments, through different channels, with different value propositions and separate partners.

However, unlike many other companies giving donations to an NGO or other charity, TOMS Shoes has managed to create a seemingly 'real' connection between the two entities, which is the 'One for one' –concept. The value capturing entity works as a conventional for profit business and feeds value to the donating entity.

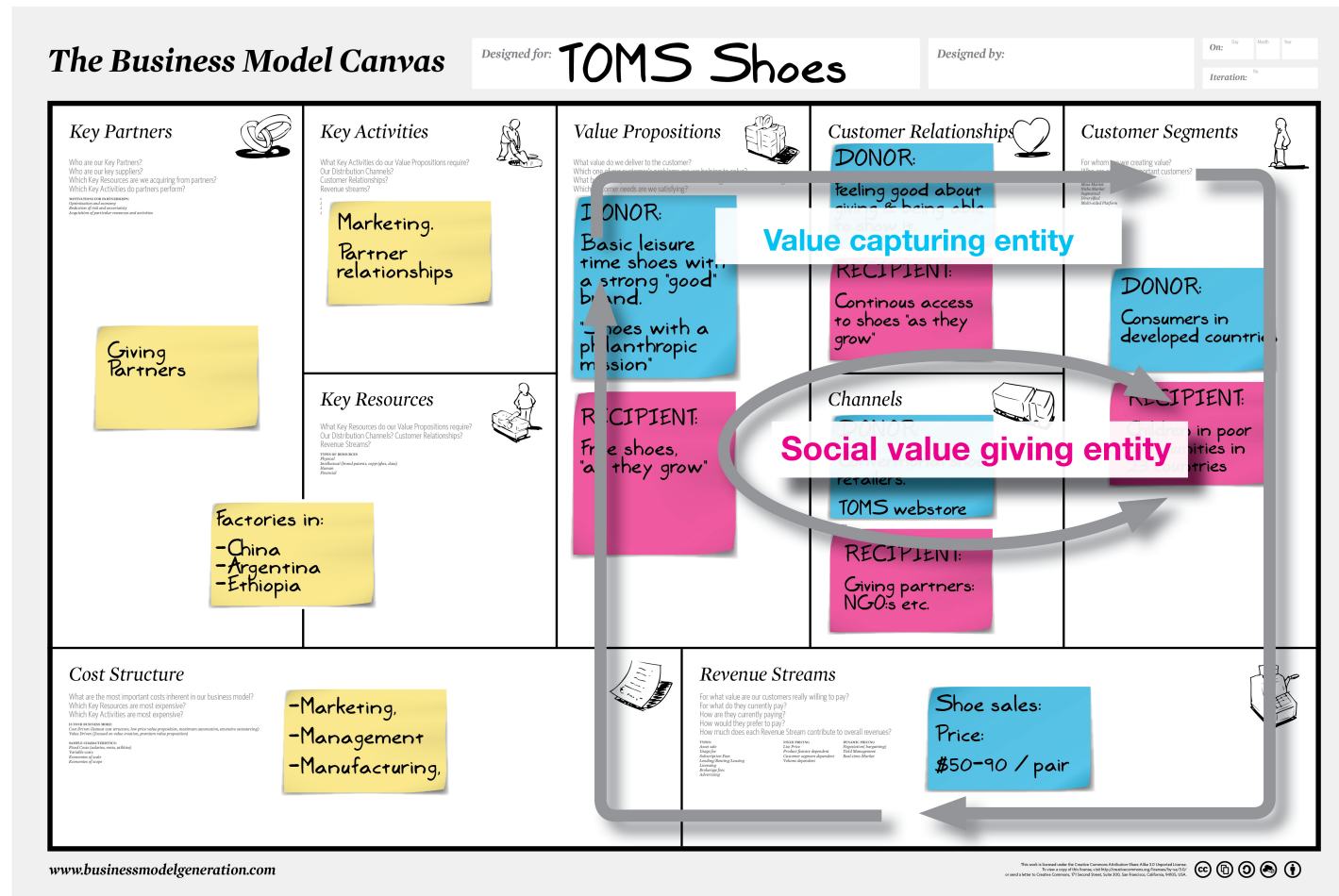
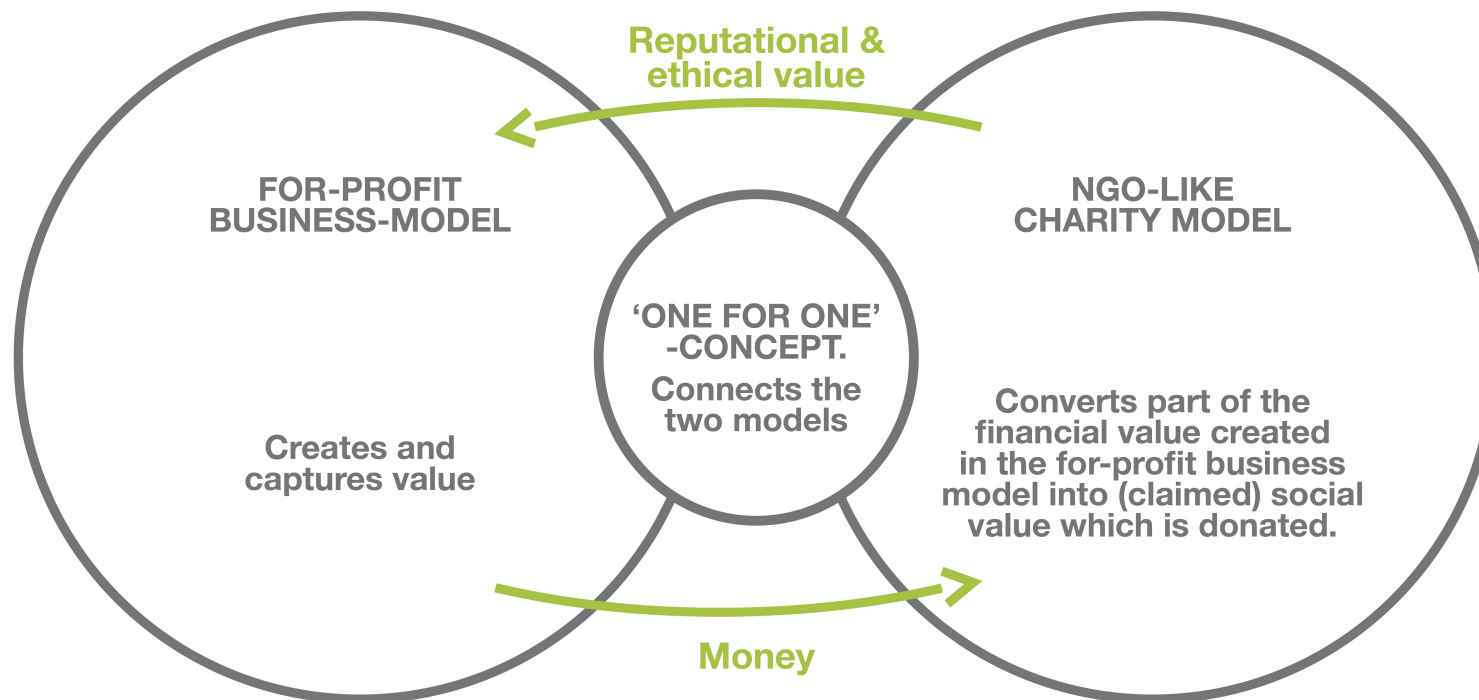


Figure 11: TOMS Shoes on The Business Model Canvas explained

Donating the same amount of the same product that the consumer purchases, has made the value-donating model more visible and clear for the shopper. There is an easily conceivable connection between the buying and giving. The 'One for one' – concept enables TOMS Shoes to use the reputational and ethical value effectively as the main marketing message of the

company, and this message is embedded in the product the consumer buys. In TOMS Shoes' case social value creation reduces the effectiveness of the company, as they need to produce two times the product. However, it seems that their attractiveness increases so much that in total the social value creation increases their competitiveness.

Figure 12: TOMS Shoes' dual business model



6.3 Fairtrade

Perhaps the best-known brand associated with social value or social justice is Fairtrade. Fairtrade is a certification label of Fairtrade Labelling International Organizations (FLO), which is a group of 25 non-profit organizations. Although the group is non-profit, is Fairtrade a relevant example even in the for-profit context of this study. After all, FLO is closely connected with many for-profit businesses and Fairtrade labelled products are mainly sold through for-profit companies. (In this study, the term Fairtrade refers to the certification model of FLO and the mark certifying the application of their standards. The term Fair Trade refers to the broader movement to improve the living conditions of producers through trade, including other organizations in addition to the FLO.) The philosophy of Fair Trade emerges from the presumption that farmers in developing countries are not paid enough for their products in the conventional global trade. This unfair division of wealth exists because the distribution and marketing corporations hold too much of the profit to themselves. Fairtrade is a product certification system made visible for consumers as an additional label on products that have been produced according to the standards by FLO. The standards: *“are designed to tackle poverty and empower producers in the poorest countries in the world.”*

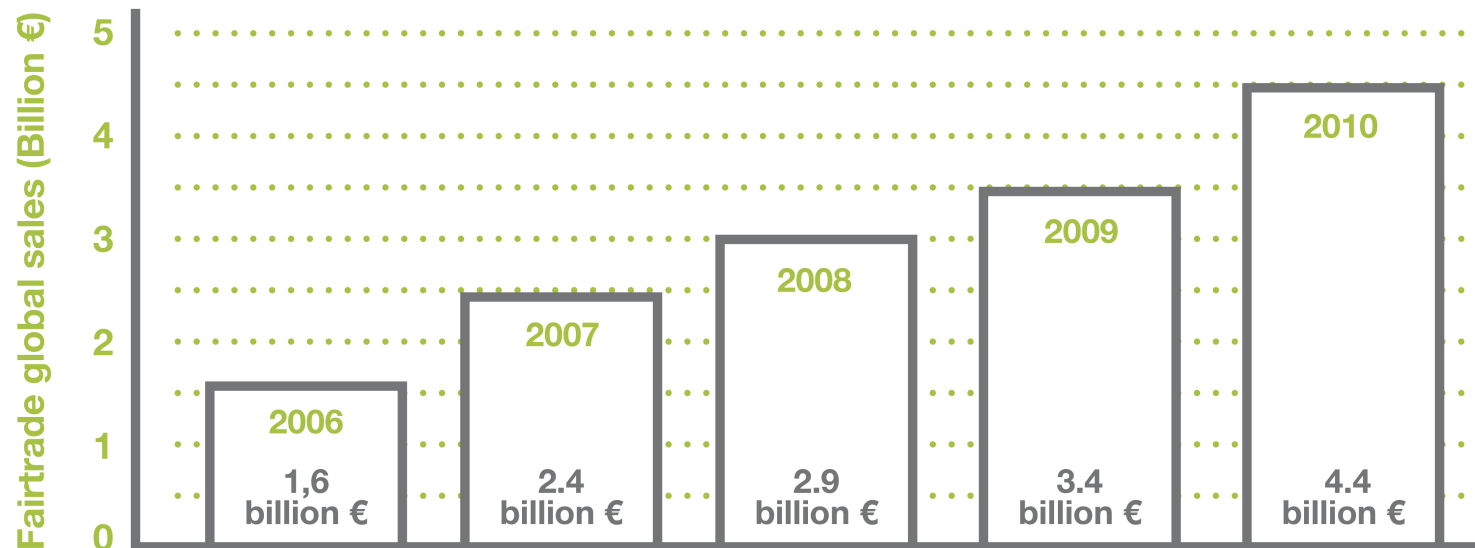
According to FLO the aims of the Fairtrade standards are to (FLO, 2011b):

- Ensure that producers receive prices that cover their average costs of sustainable production;
- Provide an additional Fairtrade Premium, which can be invested in projects that enhance social, economic and environmental development;
- Enable pre-financing for producers who require it;
- Facilitate long-term trading partnerships and enable greater producer control over the trading process;
- Set clear minimum and progressive criteria to ensure that the conditions of production and trade of all Fairtrade certified products are socially, economically fair and environmentally responsible.

The first Fairtrade labelled product was the coffee brand Max Havelaar, produced in Mexico and delivered to Dutch supermarkets in 1988. It was named after a fictional Dutch character who was against the exploitation of coffee pickers in Dutch colonies. (Fairtrade Foundation, 2011) Since the introduction of Max Havelaar coffee and Fairtrade labelling, the amount of Fairtrade labelled goods has continuously grown. Currently there are more than 1800 different Fairtrade labelled products available in Finland alone and the labelling has been given to products from numerous categories ranging from bananas and coffee to other groceries and also sport balls and gold (Fairtrade Finland, 2011).

As the figure shows, global sales numbers of Fairtrade labelled products have grown remarkably in recent years. It is difficult to point out a single reason for the recent success of Fairtrade. However, bearing in mind that Fairtrade products often cost a price above the average in the relative categories, the growing sales numbers can be perceived as an indicator of growing interest towards Fairtrade labelled products.

Figure 13: The global sales of Fairtrade products. (FLO, 2011a)



Like TOMS Shoes, also Fairtrade has received criticism. Fairtrade too has been accused of not solving the real problems of the poor: “...*the fair trade movement is reshaping the debate about underdevelopment, so that the main concern today is with increasing farmers' wages by fairly small amounts rather than really transforming poor communities through development, modernisation, even industrialisation.* (Daley, 2007)” There is also research that questions the claimed ‘more fair’ benefit distribution. For instance, in a study about coffee produced in Nicaragua and consumed in Finland, it was argued that even though Fairtrade could indeed provide benefit for those farmers, whose products are mainly sold under the Fairtrade label, most farmers are unable to get the certificate, and conditions of them gets even worse. Furthermore, rather paradoxically the study suggests that a large cut of the above-average price paid by Finnish consumers goes to the traders: exporters, roasters and retailers, thus empowering them instead of the farmers. It was found that Fairtrade changed the conditions of hired labour very little and it was questioned whether Fairtrade can empower farmers and workers, instead of nurturing inequality by enforcing the power relationships of ordinary global trade. (Valkila et al., 2010, p.267) It has also been stated that “mainstreaming” or “corporatisation” of Fairtrade, referring to a large percentage of Fairtrade goods

being sold through large multinationals and supermarket chains, means both opportunities and risks. It has been said that a broader socially oriented, pro-producer movement can emerge from the debates and tensions caused by the expansion of Fairtrade. On the contrary, academics have emphasized the challenging tension between the social ambitions of Fairtrade and commercial and industrial constraints associated with large multinationals. The critical authors are sceptical about the capability of Fairtrade to challenge the existing economic order, and furthermore see that multinationals can use Fairtrade as camouflage and this can potentially undermine more radical attempts to change international trade. (Smith, 2010, p. 264)

Fairtrade’s ability to set the same standards for everyone, when the organization gets a growing amount of its income from large companies, has been questioned. Additionally, it has been asked that as the growing consumption of Fairtrade products, leads the size of plantations to grow, can Fairtrade still help low-wage workers on these big plantations, where they have less ownership compared with the small-scale farmers in cooperatives? The multinational corporations – who are largely responsible for many of the injustices in the current trade system – can also potentially damage the Fair Trade movement’s image and credibility. How these challenges are

solved, is said to define the future of the Fair Trade movement. (Wolford and Bonds, 2007, p. 72)

6.3.1 An example Fairtrade value chain on the Business Model Canvas

Fairtrade works in many markets and product categories with different value chains. Correspondingly, they have different business models with different stakeholders. However, the basic principles and the consumer value proposition are somewhat similar in all of them. Because of the diversity inside Fairtrade, the decision in this thesis was made to focus on one example product and supply chain for depth and precision. The most comprehensive overview about the complete value chain from production to consumption, that was found during the study, was written by Valkila et al. in their report Empowering Coffee Traders? The Coffee Value Chain from Nicaraguan Fair Trade

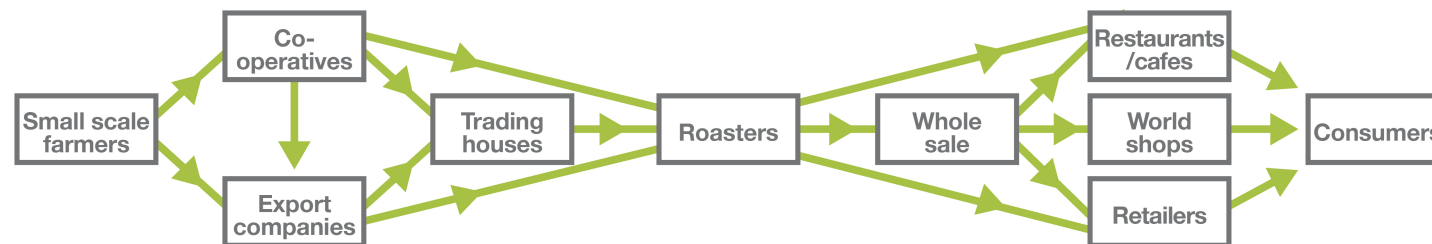
Farmers to Finnish Consumers. This study was published in Journal of Business Ethics in 2010 and it was chosen as an example case. In this section the term 'Fairtrade coffee' refers to Fairtrade labelled coffee consumed in Finland and produced in Nicaragua, as in Valkila et al. 2010. When examining Fairtrade, it is easy to note a characteristic feature of their business model; large amount of stakeholders that are diverse and distant from each other. Valkila et al. have mentioned that: *"Fair Trade can be interpreted as one attempt to foster intimacy between distant poor producers and rich country consumers, to create a bond between these two types of agents. (2010, p.260)"* As the visualisation below shows, in the case of Fairtrade coffee, the value chain has become a lot more complicated after Fair Trade labelling has become available for mainstream operators.

Figure 14: Initial idea, and current value chain of Fair Trade coffee. (Adapted form: Valkila et al. 2010, p.264)

Initial idea of "more direct trade" by Alternative Trade Organizations.



Possible value chains of Fair Trade coffee after Fair Trade labelling became accessible to mainstream operators.



Because of the great number of relevant stakeholders, mapping Fairtrade coffee on the Business Model Canvas was not entirely straightforward. As the consumer value proposition is: coffee produced with a more 'fair' distribution of benefit among the stakeholders, understanding and managing these different stakeholders is a key factor in the business model, and crucial in terms of credibility and success. The most challenging stakeholder group to place on the canvas was the small farmers, because they have a twofold role. In this sense, Fairtrade is different from many other 'charitable' organizations, such as TOMS Shoes. In TOMS, the only value the receiving party brings to the entity is the reputational and ethical value that can be used in marketing. On the contrary, in the case of Fairtrade coffee, the 'receivers' are also producers - a more integrated part of the business model. However, as with TOMS, the model for 'Third party funded models' was applied for Fairtrade. This felt appropriate since the idea of Fairtrade is ultimately to connect the consumers – who can be seen as donors - with the producers - who can be seen as receivers.

An interesting thing about the Fairtrade coffee business model is that it has two revenue streams. The distributing partners in the consuming country pay the main revenue stream – licence fees. Interestingly, Fairtrade also gets revenue from the

producing organizations (the receivers) in the form of certification fees. Numbers for how much money each revenue stream generates in the example case were not found, but for example in the UK, the Fairtrade Foundation claims to receive about 75% of their income from the licence fees paid by their partners (Fairtrade Foundation, 2012). In Finland, the licence fee for coffee is 0,15€ / kg. (Reilun kaupan edistämisyhdistys ry, 2012, p.5) According to Valkila et al. approximately 800 000 kg of Fair trade coffee was sold in Finland in 2008 (2010, p.258). According to these numbers, the yearly revenue from coffee licence fees would be about 120 000 €.

Fairtrade's business model was found to be very different from the other examples. While the other examples produce and deliver goods, reminds FLO a public sector overseeing organization with a strong consumer brand. However, in the case of coffee, the revenue of Fairtrade is relative to the sales numbers. This is because the licence fee is paid by kilos. This highlights the seemingly challenging tension between increasing sales and staying true to the initial idea and keeping the standards high.

Placing the elements of the Fairtrade value chain on the business model canvas was helpful in terms of drawing the picture of the internal structure, the value proposition and the supervisory characteristic of the organization. However,

understanding about what happens between the producer and the organization remained somewhat vague. This may be partially because of what information was available, and partially because of what the elements on the canvas are. While the elements on the canvas help to understand the revenue

flows, there are no elements that would have been helpful in truly understanding 'social value flows' that exit the organization. This shows that it could be useful to add an extra element on the canvas that triggers evaluating social value from the recipients' point of view.

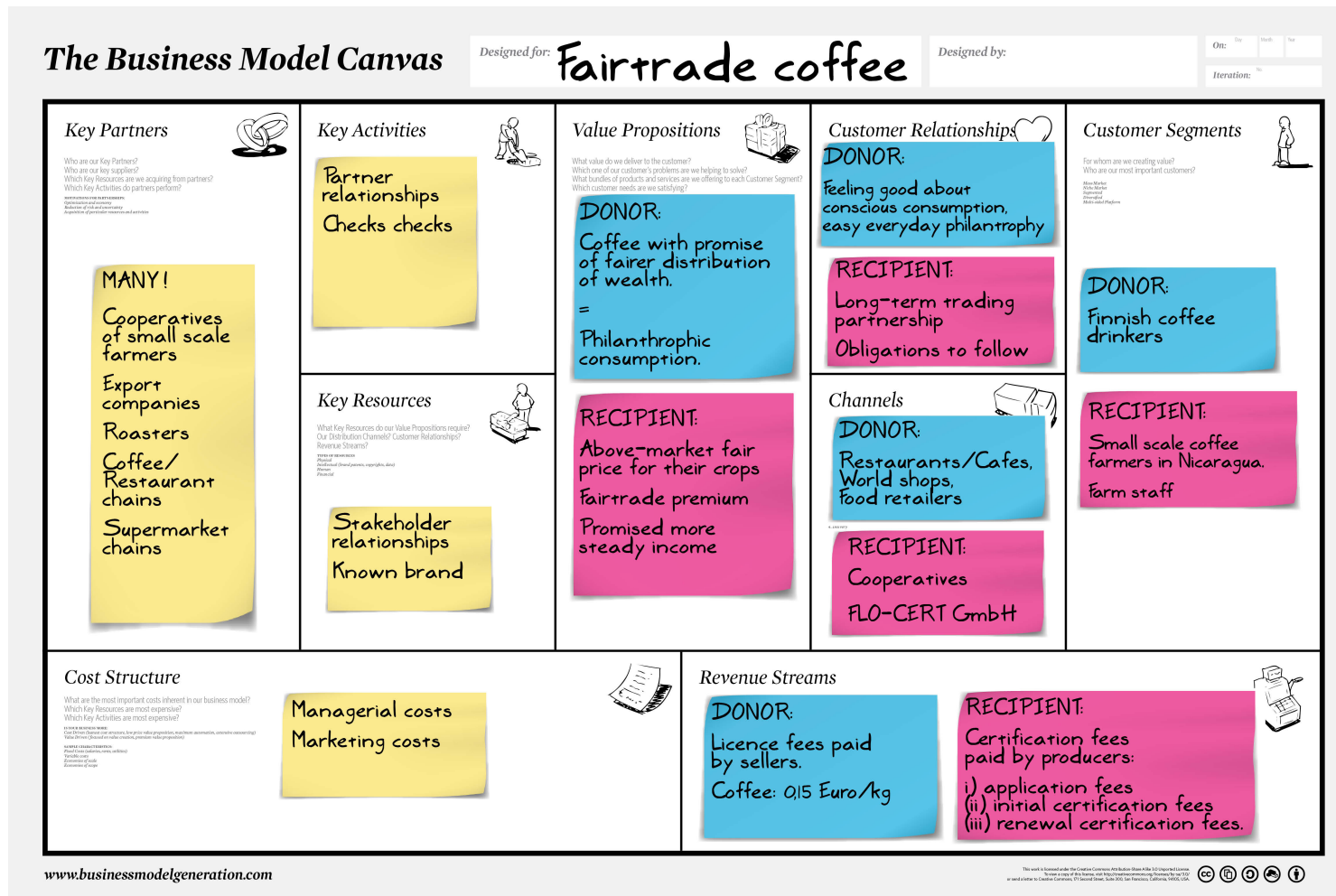


Figure 15: An example Fairtrade value chain on the Business Model Canvas

6.4 The Big Issue

The Big Issue is a magazine sold on the streets of the United Kingdom by homeless and vulnerably accommodated people. Gordon Roddick and John Bird founded the magazine in 1991 in response to the growing number of rough sleepers in London. The Big Issue calls itself 'a business solution to a social problem' and claims to help homeless people to take control over their lives by turning them into micro enterprises – “*a hand up, not a hand out*”.

Homeless vendors can buy the magazine for £1.25 and sell it for £2.5. The Big Issue works on a weekly basis with approximately 2800 homeless in the UK and the circulation of the magazine exceeds 125'000 every week. According to them, their business model has worked as inspiration for hundreds of imitations around the world. (The Big Issue, n.d.)

The Big Issue is an interesting example of social value creation because instead of plainly giving money or goods for the ones helped, The Big Issue activates them to work for their income. The Big Issue has lowered the entry barriers to employment. This motivation to do things is perhaps as valuable for the homeless as the money they receive. In 2011, as a response to the growth of unemployment in the UK, The Big Issue became available to be sold by unemployed as well. According to co-founder John Bird, for many who recently became unemployed selling the magazine can be more appealing than social security: “*It may not earn them a lot of money but it may keep their self-esteem and it may keep them afloat.*” (Williams, 2011)

What separates The Big Issue from TOMS Shoes or Fairtrade is how they deliver the social value in the same area where it is created. In other words, the person who buys the magazine probably lives in the same city with the homeless vendor. It is also noteworthy how The Big Issue both delivers and receives value from the people they help.

The homeless get the income and motivation to be active - the magazine gets an unconventional differentiating sales network. For TOMS Shoes, the only value for the company gets from the recipients is related to marketing, but in the case of The Big Issue the relationship is more two way. From the four examples presented in this thesis, The Big Issue has most clearly embedded social value creation as a functional part of their business model.

6.4.1 The Big Issue on the Business Model Canvas

Also for this example the 'third party funded model' with 'donors' and 'recipients' was adapted. Mapping the Big Issue on the Business Model Canvas helped to understand the key stakeholders to consider. The Big Issue needs to take into account at least three key stakeholders, all with very different needs. The homeless or unemployed vendors, who in this case are the recipients, need an easily accessible job, which gives them enough money to survive and to be motivated to sell the magazine.

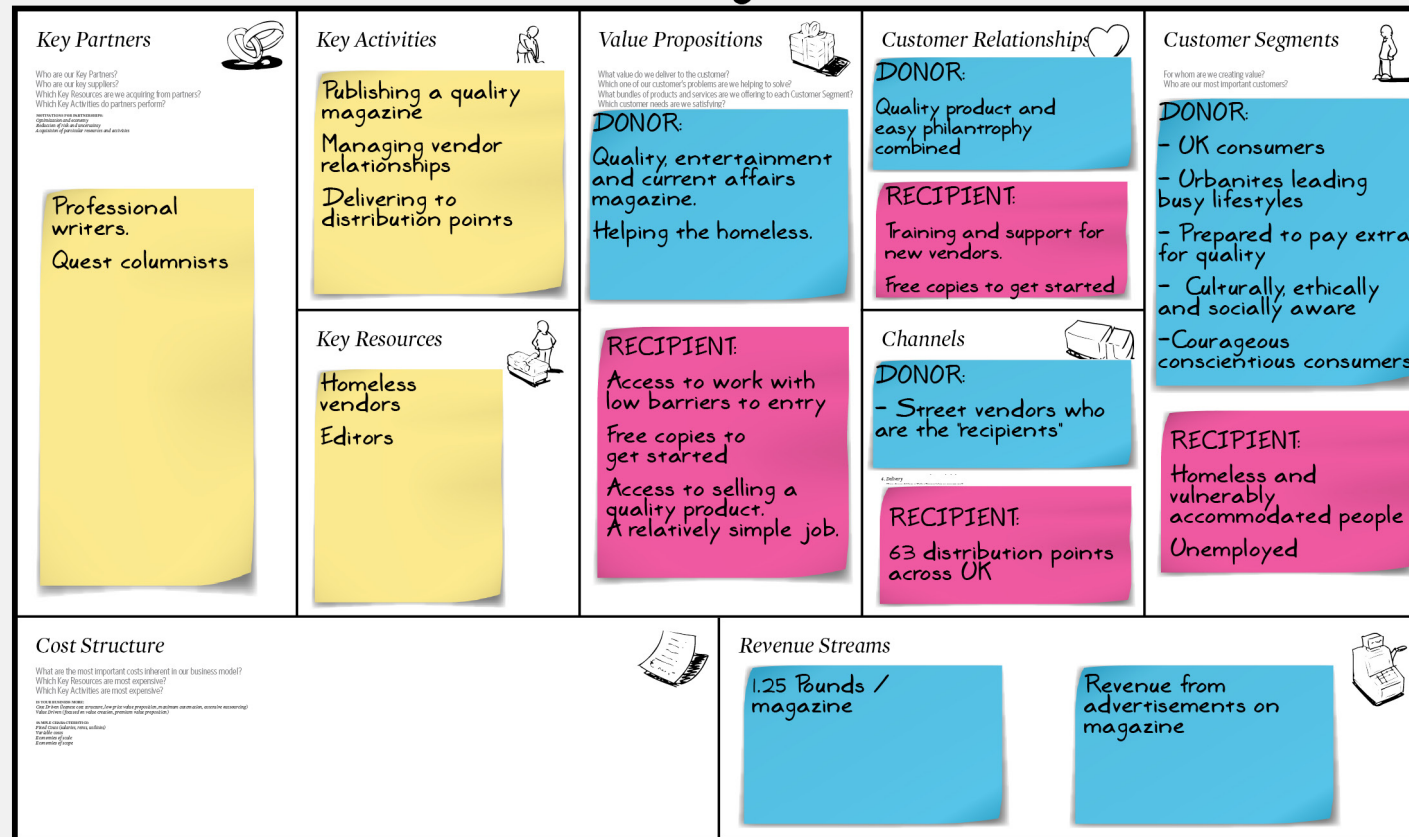
The buyers of the magazine, the donors, want an interesting magazine. A third important stakeholder group is the advertisers who bring additional revenue for the organization. According to The Big Issue, they provide advertisers an audience that almost exclusively read The Big Issue Magazine, and 69% of whom believe that it is worth spending more money on quality goods. They claim that: *"Unique distribution directly into the hands of consumers means there is no other title with the value of The Big Issue – we exist outside of throwaway culture."* (2011, p.2)

The Business Model Canvas

Designed for: **The Big Issue**

Designed by:

On: Day Month Year
Iteration: No.



www.businessmodelgeneration.com

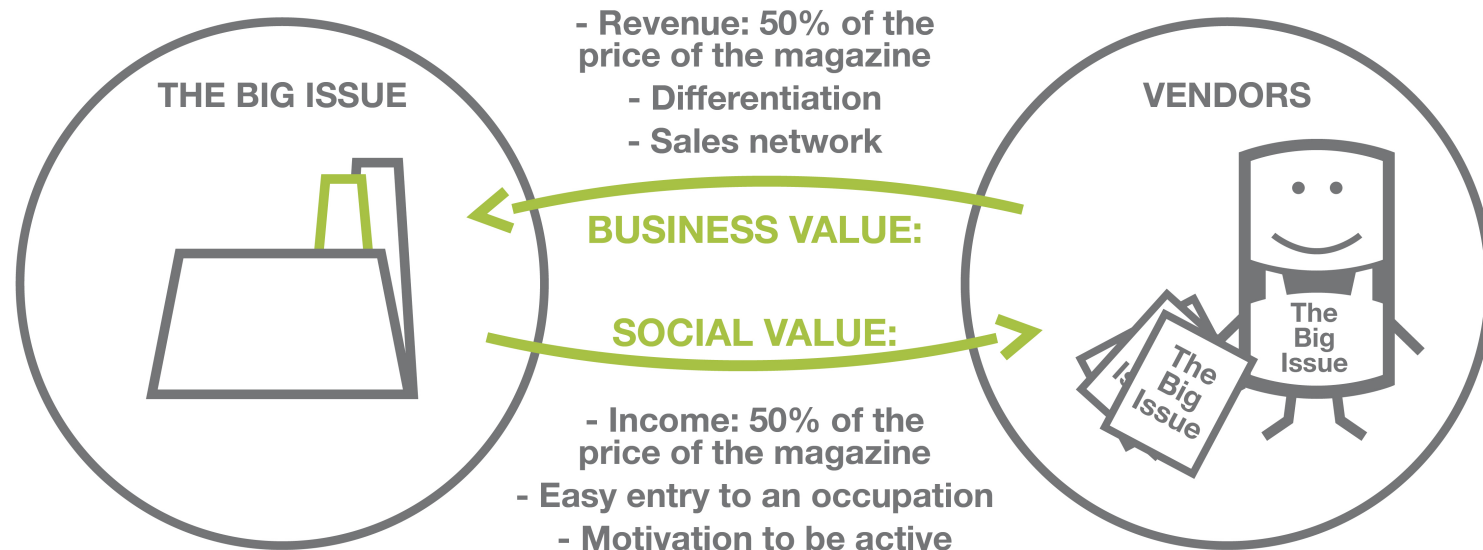
This work is licensed under the Creative Commons Attribution-ShareAlike 3.0 Unported License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-sa/3.0/> or send a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA.

Figure 16: The Big Issue on The Business Model Canvas

Not surprisingly, the most important relationship appears to be the one between the homeless vendors and The Big Issue organization. This relationship has multiple dimensions and the exchange of value between these two actors is multi-layered and interesting. The following visualisation shows some aspects of the value exchange between these two stakeholders. The visualisation is based on the analysis with the BMC. Probably the biggest takeaway from the breakdown of the Big Issue on the Business Model Canvas was to understand the business

potential of social solutions. The Big Issue truly exemplifies how social value creation can be used as an asset in competing for profitability. They claim that their readership is exclusive, that it does not read print competitors (The Big Issue 2011, p.2). Referring to this, it can be stated that the socially ambitious business model has helped The Big Issue to find an audience that is not interested in other products in the same category. This displays the potential of social value creation as a positive differentiator.

Figure 17: The Big Issue model explained



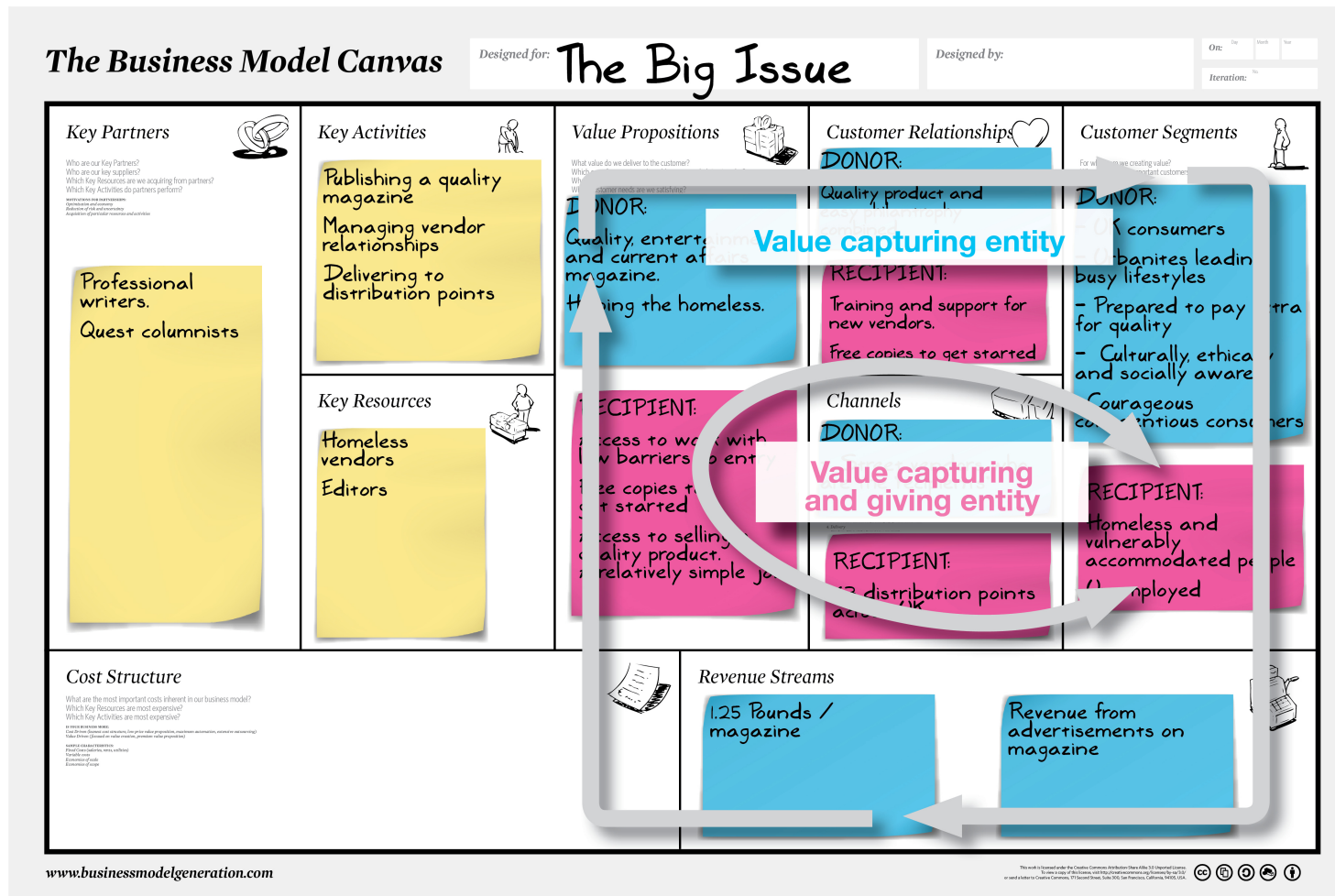


Figure 17: The Big Issue on The Business Model Canvas explained

6.5 Walmart \$4 Prescription Drugs Program

The retail giant Walmart may not be the first company that comes to mind when discussing social innovation. However, just because of their enormous size, their actions have a large impact on the surrounding society. With over two million employees and a revenue of more than 400 billion US\$ in 2011, they are said to be the largest corporation in the world (CNN Money, 2012).

In 2006, Walmart launched their \$4 Prescription Program, a program that gives Americans access to generic alternatives of prescription drugs at low standard prices: 30-day supply for \$4 and 90-day supply for \$10 (Walmart, 2012a). In March 2012, the number of items available was approximately 300 (including different dosages) and Walmart claims their customers have been able to save more than 3 billion dollars because of the program (Walmart, 2012b, p.1). It has also been argued that the savings affect especially Medicare recipients and those who don't have a health insurance (Saul, 2011, location 103). The \$4 drugs are available throughout the extensive network of Walmart, Sam's Club and Neighborhood Market pharmacies in the USA, all of which are part of the Wal-Mart Stores Corporation (Walmart, 2012b p.6). Walmar's initiative has forced competing retailers to set up similar programs and it

has had a large impact on the pricing of generic medicine in the USA. For example in a study comparing the prices of generic drugs in the USA and Canada in 2010, it was found that in Canada retail prices of generic drugs were on average 90% higher than in the USA. The same study suggested that the retail prices in the United States were lower because: "... *retail pharmacy markets in the United States have been subject to a more competitive dynamic. The competition has created economic pressures that have significantly discounted prices for generic drugs relative to their brand-name originator equivalent.*" Authors of the study state that Walmart started the competition and made others like Target and K-Mart follow. (Skinner and Rovere, 2010, p.2 & 5)

Soon after the program was introduced question was raised whether Walmart was actually able to make profit with the \$4 drugs. Yet, Walmart claims they only choose drugs that they can sell profitably, furthermore it has been estimated that the money saved at the pharmacy is spent on other goods at Walmart (Freudenheim, 2006). The overall impact of the program was also questioned, as it was doubted if the \$4 drugs would be attractive for the majority of Americans with health insurance, as the savings in their case would remain insignificant (Freudenheim, 2006. Barbaro and Abelson, 2006).

When it comes to business this notion may be a alarming, but from a social impact viewpoint it may be the opposite. It is important to note that about 50 million (17%) Americans don't have a health insurance, and the number has shown a steady growth curve in the last decade (Christie, 2011). For those people, the \$4 drugs are a lot cheaper than other options. Additionally, it has been estimated that more than half of the uninsured are in that state involuntarily as they cannot afford the insurance. The involuntarily uninsured also have multiple disadvantages associated with poor health, such as lower access to medical care. (O'Neill and O'Neill, 2009, p. 4, 32-33) As the main beneficiaries of Walmarks \$4 drugs program are the people with lowest income and limited access to medical care, the potential impact in their lives is large.

6.5.1 Walmart \$4 Prescription Drugs Program on the Business Model Canvas

Of the four examples, Walmarts \$4 Prescription drugs program was the easiest to place on the Business Model Canvas. This was probably because the Business Model Canvas' initial purpose is to foster creativity in conventional for-profit business model design, and Walmarts \$4 program is basically a conventional business model. The low price in a category related to health and 'people's capability to live' just creates the social value. When the \$4 Prescription Drugs Program was placed on the business model canvas two additional buckets were added to the canvas. These were 'social and environmental benefits' and 'social and environmental costs' this is a method suggested for triple bottom line businesses (Osterwalder & Pigneur, 2010, p. 265). While exploring the business model of Walmarts program it was soon clear that it could have been invented also with no social value creation in mind, it is not very different from what Walmart normally does. However the extensive reach to customers and the negotiating power of a giant allows them to do a business solution, which creates social value as well. It is an example of how solving a social problem can lead to profitability at the same time. Walmarts example is interesting since there is no doubt about the impact on the low income uninsured target group.

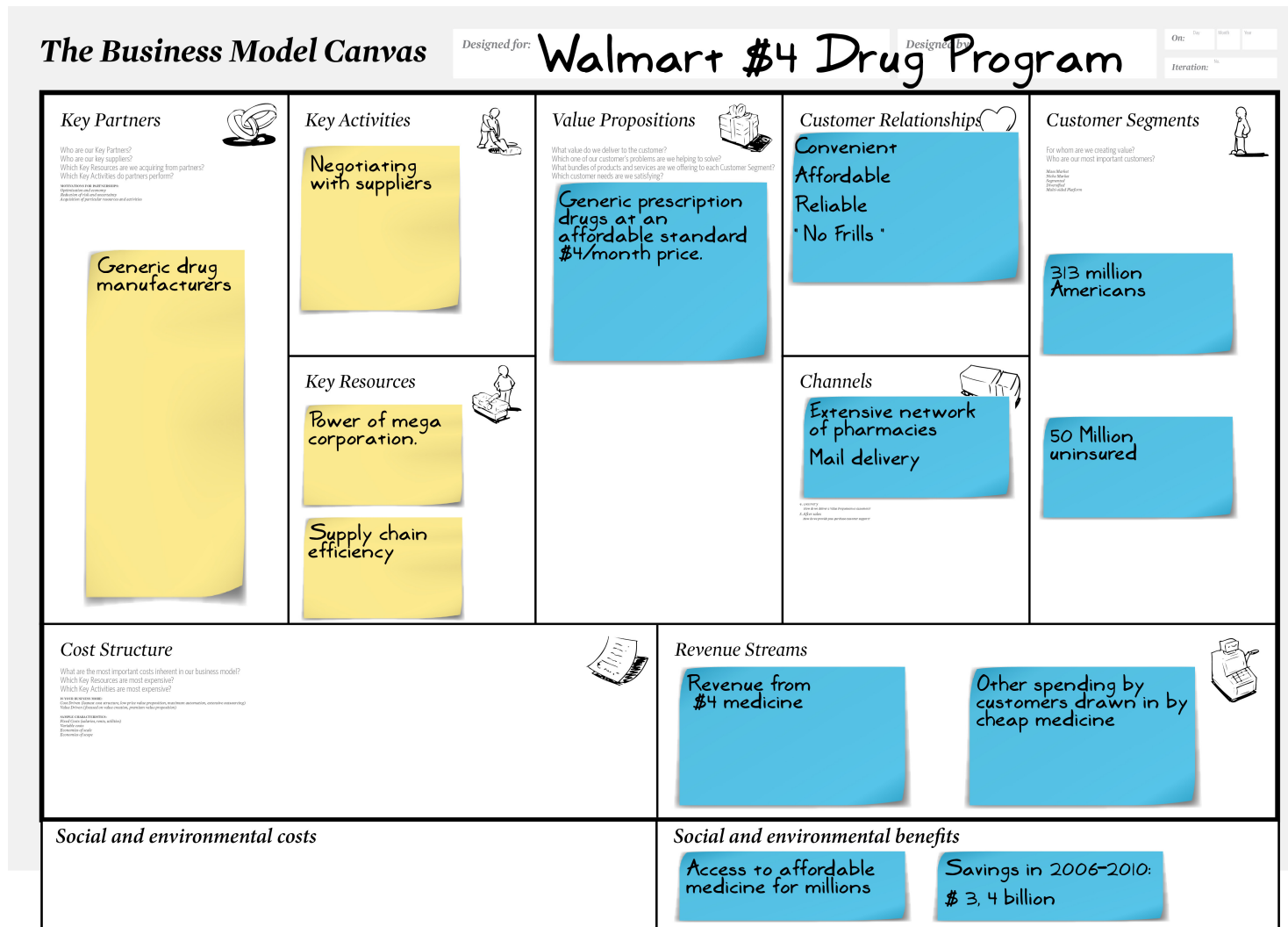


Figure 19: Walmart \$4 Prescription Drugs Program on the Business Model Canvas

6.6 Deliberating the method of retrofitting the case examples on the canvas

Looking back, retrofitting existing examples on the Business Model Canvas, feels like a good way of evaluating the suitability of it for social innovation. The biggest challenge during this phase was finding the right information about each of the examples. Quite reasonably, in all of the examples, the most challenging segment of the Business Model Canvas to fill was the left side, which is about the internal actions of the organization – the efficiency. This was the most difficult area to find information about, and this is not surprising, since the elements on the right hand side of the canvas are the ones that are related to things that companies usually communicate about in their marketing. However, regardless of relying on limited information at times, the BMC was found useful in getting a more comprehensive understanding about the organizations. Using the BMC helped to unbundle the business models of the examples in such way that it broke some preconceptions I had originally had of those companies. At the beginning of the study, for example in the case of TOMS Shoes, it was that they had baked the giving as a core part of their business model. However mapping TOMS on the BMC helped to reveal that they actually have two separate business models where one feeds the other and in reality the connection is solely

conceptual. Another, eye opening moment was when trying to put the Fairtrade Business Model on the Canvas, and seeing its multidimensional stakeholder network and understanding the complexity of their supervising model.

This phase should be considered an experiment and when it started it was not certain how useful the outputs would be. It was also uncertain whether I had gained enough understanding about the chosen social innovations to manage to get through the case study. However, it felt like a relevant experiment, since many sources have claimed the growing need for social innovation, and on the other hand, many authors have highlighted the usefulness of BMC in business model generation – a task in many ways similar and often connected to social innovation. At this point, the main question was if BMC as such is sufficient for evaluating and ideating social value creation in addition to financial value creation.

6.7 Overall findings about the four examples

The four examples have different models for creating social value and delivering it to the recipients. What is common is how they have (in different depths) incorporated the social value creation as part of their operations, instead of leaving it solely as the responsibility of a separate unit such as the CSR department. They are not doing business and then giving back, but giving as they do business. How the social value creation is connected with the core business changes from case to case, but for none of them it is entirely separate. The most interesting thing to notice was how the organisations release the social value in very different phases of the value chain. In the case of Fairtrade, the producers receive the social value, meaning that it happens in the very beginning of the value chain. The Big Issue makes the recipients the distribution channel, meaning that the social value is created at the point of sales. In the case of Walmart, the end customer receives the social value. TOMS Shoes deliver the value the furthest from their core business, but they have made the connection to their brand with the One for One concept.

Also thought provoking about the examples is that for none of them the products or their qualities as such work as the main differentiator. Rather the mechanism of producing or delivering

is what makes them special. In the case of TOMS Shoes, the most interesting aspect is how the logic behind their charitable action is tied so clearly to the purchase of each product that is practically impossible not to understand their brand promise when you hear it the first time. Based on this experiment it appears that in all four example cases creating social value has worked in favour of their profitability, not against it.

6.8 Findings and insights made whilst using the Business Model Canvas during the case study

At the beginning of this thesis, I was somewhat sceptical about the usefulness of the hyped Business Model Canvas. I was doubtful if this piece of paper with nine things on it would really help me understand how organizations work. I thought that the authors of the canvas had done little more than taken the basic ethos of a designer's way of working and packaged it nicely to a book to sell for business people. I thought there was not going to be much to learn for a trained designer like myself. What was found during the test, was that using the canvas as suggested in the accompanying book Business Model Generation, did indeed feel very familiar and provided somewhat little that I had not already learned during my studies and work in industrial and strategic design. However, the assumption that I would not be learning much was wrong. I found the elements on the canvas very useful in understanding the value flows, partner relationships, basic functions and key elements of the case organizations.

I feel more confident about my knowledge about the example organizations, and this shows that the nine elements on the canvas were helpful in that sense. Aiming to fill these elements

directed me to search the kind of information necessary for understanding the business models of the case organizations, at least on a rather general level. Based on this finding, my estimation is that these elements would help in inventing and developing organizational models in social innovation as well. However, there are some challenges.

As was mentioned when introducing the examples, both TOMS Shoes and Fairtrade have received rather similar criticism about how they do not benefit the recipients of social value truly as much as they claim to do. The critics claim that people at TOMS Shoes do not really understand the true needs of children in poor communities. Furthermore, TOMS has been accused of not understanding the recipients' society, and potentially harming the local shoe markets and thus creating more poverty. Fairtrade has been accused of focusing on increasing farmers' wages by small amounts, and by doing that moving the focus away from transforming the communities in more efficient ways. This criticism is also about misunderstanding what is the best for the recipients and their societies. The aim here is not to argue if these complaints are right or wrong. However, it is interesting that using the canvas to unbundle these two organizations did not help me to evaluate these issues. In other words, after the exercise I am not

any smarter about the recipients' needs or the organizations' impact in their lives on a personal or societal level.

In pure profit maximisation, it may be enough if the consumer wants the offering and is willing to pay for it. In social innovation, however the impact in the recipients' lives needs to be considered in a broader manner. There are issues like, how does the offering affect the recipients' life in the long term? Or is the solution preventing something more positive happening? What is the impact on other people in the recipients' social context? A social innovator needs to go deeper in asking questions of this kind, than what is perhaps necessary in conventional business.

Returning to the social ecosystem theory as inspiration for developing the canvas for social innovation

The feeling of uncertainty about my knowledge of the recipients' needs made me consider that the Business Model Canvas may be insufficient in that regard. This directed the study back to the social ecosystems theory by Bloom and Dees discussed in the chapter about social innovation. After all, as it appears, the main emphasis of the Business Model Canvas is in the variables within an organization. (The customer

relationship, which is about external matters as well, is a key part the Business Model Canvas, but it appears to be more sufficient for conventional for-profit businesses) The social ecosystems theory however, is ultimately about understanding the external variables that affect organizations, as Bloom and Dees argue: “*Proponents of an ecosystems framework stress the value of understanding the complexity and dynamics of the wide-ranging forces an organization faces (2008, p. 47).*” It appears that for better suitability for social innovation, a potential development direction for the Business Model Canvas could be towards the direction of the social ecosystem theory.

While the elements on the canvas seem relevant in the context of social innovation as well, they are not necessarily adequate. As was mentioned earlier, the social ecosystem consists of six players that a social entrepreneur or innovator should consider. These players are (Bloom and Dees, 2008, p.49-50):

1. Resource Providers
2. Competitors
3. Complementary Organizations and Allies
4. Beneficiaries and Customers
5. Opponents and Problem Makers,
6. Affected or Influential Bystanders.

In the visualization on the opposite page, the six players by Bloom and Dees are placed on the Business Model Canvas for Comparison

The blue circles are the players that can be found on the canvas and the red ones are missing. As can be seen from the visualization, according to Bloom and Dees, a social entrepreneur needs to consider additional variables than what the Business Model Canvas includes. Player type 4 'customers and beneficiaries' was divided into two separate parts. Osterwalder and Pigneur suggest placing recipients

(=beneficiaries) to the canvas as a customer segment (2010, p.264). However, quite naturally as the canvas is not initially intended for social entrepreneurs or social innovators the element for them is missing.

Proposal for a direction of development for the canvas with social innovation in mind

Based on the case study and contrasting the canvas to the social ecosystem theory, a draft of a possible development direction for the canvas is presented. It is important to remember that this is only a draft, based on an experiment with only four organizations and a comparison to just one alternative theory.

The suggested changes in the draft canvas are marked with numbers 1 and 2. Change number 1 is splitting customers into two entities; recipients and donators. This is because in social innovation, often the recipients of the social value are different than the paying customers. This arrangement highlights the importance of the recipients and makes it easier to understand the separate relationships with the two different targets segments. However there is a risk in this setting. It is risky that this may highlight the so called separation thesis where the recipients of the social value are seen as a separate part and not integrated as a real part of the business model.

Change number 2 is adding a new bucket 'Society and Bystanders'. This is inspired by the social ecosystem thinking of

Bloom and Dees. The purpose of this bucket is to inspire the user to consider the society of the recipients and the customers in a broader manner. This is a rather general bucket and the user of the canvas would need lots of guidance to benefit from this bucket.

The goal was to maintain the usability of the canvas while highlighting the importance of understanding the recipients and the society surrounding them and the organization. Based on the case study, these appear to be the most important elements missing from the canvas. Understanding the recipients at a deeper level and their society in a broader manner was missing. However, it is clear that as such the adapted canvas probably has many flaws and to truly develop a working tool for social innovation would demand a much more profound understanding about social innovation theories, as well as many rounds of iteration and testing in various settings. The Business Model Canvas is a rather general tool, but it is the result of studying the principles of business in a comprehensive manner, including Osterwalder's doctoral thesis. A similar depth of knowledge would be necessary to create a truly working adaptation of the canvas for social innovation.

The Business Model Canvas Adapted for Social Innovation

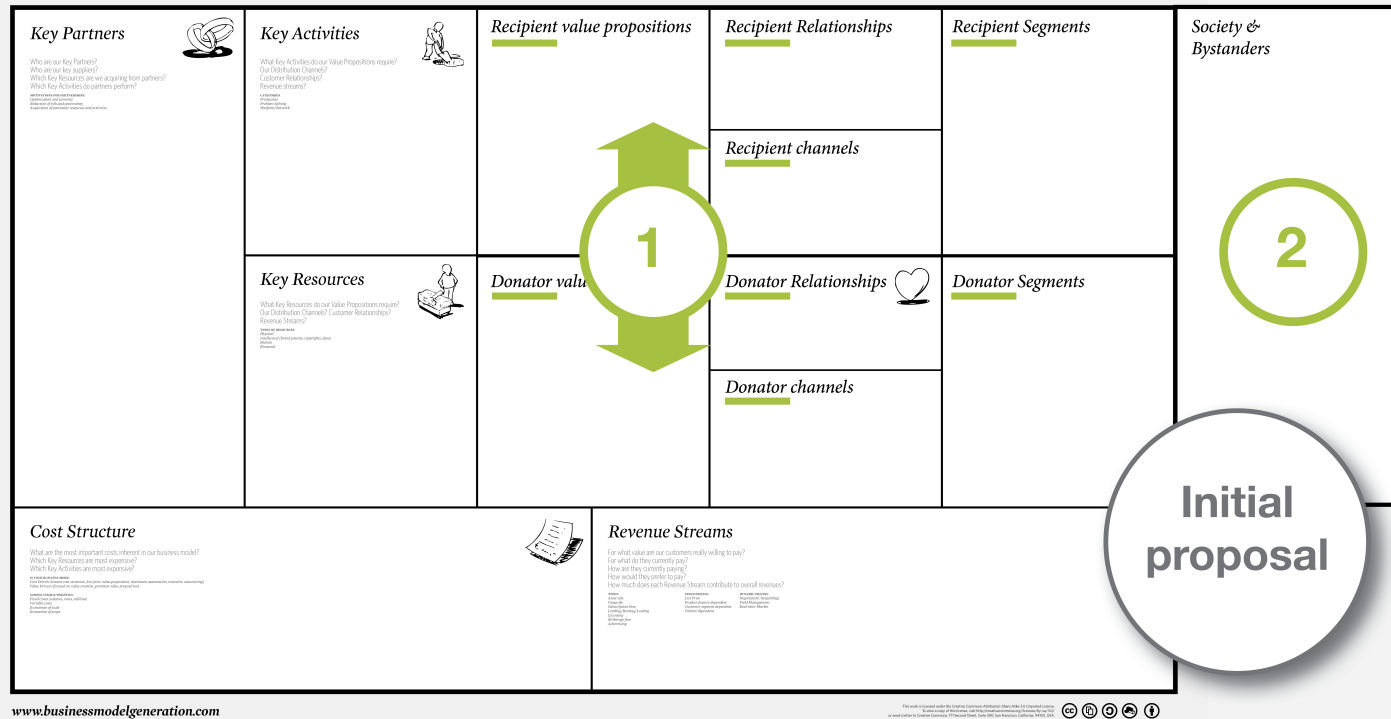


Figure 21: Initial proposal for developing the canvas for social innovation

7 CONCLUSIONS

7.1 Summarizing findings about social innovation in the private sector

To set the foundations for assessing the effectiveness of the Business Model Canvas in fostering social innovation, the overall findings about social innovation are first summarized.

There are signs that indicate a likely growth in the importance of social innovation for businesses. These signs include megatrends such as the growing number of people in the world, as well as phenomena such as the challenges of global market economy and consumers' higher demands for companies. There are also several examples of companies that have benefitted from having socially driven ambitions and communicating it. From a viewpoint of profitability, claiming to be socially good can be beneficial, but it is also risky. As can be seen from the success of TOMS Shoes or the sales curve of Fairtrade, it appears that there is demand for companies who claim to have a social agenda. However, when real or perceived flaws are revealed, lots of bad publicity can arise quickly.

There are numerous ways for organizations to create social value and it appears that there is also potential for new

innovations in this area. There are probably many untapped opportunities for companies that take social value creation as one of their business objectives. It appears that the most efficient way to benefit the society as a business is by embedding social value creation as a core part of the business, instead of treating it as a separate goal.

However, social business is not simple. Evaluating and planning social value creation – producing value that accrues to the society as a whole – means that a highly complex set of interrelated variables that exist in the society need to be considered. Furthermore, these variables and their relationships differ from case to case, depending on things like cultural, financial and technological circumstances. This means that there are no easy solutions, no magic formulas, and a high level of consideration, humility and readiness to face possible challenges is needed. Also generating a BMC-like framework that would work for all contexts of social innovation is challenging. In such tool, a balance between constraints and flexibility is needed to allow its users to deliberate according to each situation, ambition and context.

7.2 Evaluating the effectiveness of the Business Model Canvas in fostering social value creation

In this chapter, the effectiveness of the Business Model Canvas in fostering social innovation in the private sector is evaluated. This evaluation is based on the observations about social innovation made during the literature review, as well as findings made during the exercise of mapping four case organizations on the Business Model Canvas. First, positive findings will be discussed, followed by explaining some limitations and possibilities for future development.

Business Model Canvas helped to understand how organizations work

Mapping four case organizations on the canvas helped to understand how these organizations work. The canvas was found useful in realising the different ways these organizations create financial value. During the experiment, it appeared that filling the nine elements guided this study to look for the right information necessary to acquire a relatively good awareness about how the organizations serve their customers, and how their value chains work. The greater knowledge about these organizations shows that the canvas could be used as a helpful

tool in planning new organizations. In other words, the BMC was guided to ask the right questions about how the example organizations work in general, and those questions would be worth asking also when planning new organizations, likewise in the domain of social innovation.

Business Model Canvas helped to realize that there are numerous possibilities for organisations to embed social value creation in their business models

Before this thesis and the experiment, my understanding about 'social business' was somewhat limited. I saw it mostly as doing business as usual and giving some of the profit away for something 'good'. Unbundling the case organizations' functions according to the canvas helped to realize how different their methods for social value creation are. Exploring with the Business Model Canvas revealed the practically unlimited ways in which organizations can create social value. It showed that there are many ways to involve the recipients of the social value in the business model, at different phases of the value chain. Based on the case study, it also seems that the Business Model Canvas would be useful as an inspirational tool when planning a new social venture. With the canvas, it would be possible to

imagine and experiment with different ways to embed social value creation in the business model.

Business Model Canvas enables working on a conceptual level that can foster creativity

Without all figures of revenues and costs, knowledge about the four organizations remained on a relatively general level. However, in terms of innovating, this conceptual level of knowledge is probably enough to begin with. Especially in social innovation, as the amount of relevant variables can be vast, not going too much into details is probably necessary in the early stages of development. In this sense, the way of working with the canvas seems appropriate, since it allows deliberating matters on a conceptual level with enough freedom from details.

The Business Model Canvas has proven to help business innovators to evaluate and develop the interactions between a set of variables that constitute a business model. In social innovation, the set of relevant variables is as wide, likely even wider, and this study suggests that the holistic and robust approach represented by the Business Model Canvas (used as suggested by its authors), would work for social innovation as

well. However, there are some limitations related to the use of Business Model Canvas as such, which will be discussed next.

The Business Model Canvas has limitations as a support for understanding the real needs of the recipients of the social value

A social innovator needs a broader, profounder understanding about the surrounding society than what is necessary in conventional business. Despite gaining a significantly deeper understanding about how the case organizations work, there are still relevant unanswered questions after experimenting with the canvas. These questions are related to understanding the organizations' impact on the surrounding society, more precisely, on the claimed recipients of the social value.

The four case organizations have different profiles for those who receive the social value. These profiles more or less resemble the customer segments of a business - a designer would call them user profiles. The authors of the Business Model Canvas suggest treating these recipients as a customer segment and analysing the value proposition, channels, and customer relationship, like they are analysed in conventional business. However, after the experiment with the canvas, I did

not feel significantly more confident about knowing the organizations' real impact on those individuals' lives the organizations claim to help. The current study does not evaluate the case organizations' true social impact. Analysing the case examples on the canvas did not help to build a solid opinion about how positive their real social impact is. Filling the elements on the Business Model Canvas, did not direct to find the information necessary to estimate the companies from this point-of-view. Therefore, this study suggests that the Business Model canvas as such would not be a sufficient tool for evaluating the true social impact of new ideas, expected to become social innovations.

The Business Model Canvas did help me to recognise The Big Issue's interesting two-way relationship with the recipients, or how TOMS Shoes simultaneously runs two business models, a conventional for-profit model while their social value is delivered through a charity model. However, understanding these organizations' true impact on the recipients' lives did not become significantly deeper during the experiment. This may be partially because there is not enough objective information about this available. However, there is reason to believe that it is also at least partially because the canvas did not guide to look

for the necessary information, not in the same depth as for financial value creation.

In short, the Business Model Canvas is great in evaluating how a social value creating organization would work, but it is not a sufficient tool for defining the real need for social value. The canvas does not help to understand the true needs of the people who the innovator is aiming to help. It can help to innovate how to answer that need in an efficient way.

7.3 Suggestions for future development

This study suggests that the robust approach, associated with designers' methodology and represented by the Business Model Canvas, would probably be useful in the context of social innovation in the private sector. It has also been discussed that as such the Business Model Canvas may not be a sufficient tool for social innovators. It appears that there would be potential for developing a Business Model Canvas- like tool with specific emphasis on social innovation and social value creation. Developing such tool that is usable, general enough, but provides necessary constraints, will need a deep understanding about the area of social innovation. A potential direction would be to research the theories that discuss the variables that need to be considered when aiming for positive social impact (such as

the social ecosystem theory by Bloom and Dees (2008)).

Reflecting deep knowledge of that area with what is understood about business models appears to have potential for making valuable insights.

Another interesting area to study would be using user inspired design methods for social innovation. It appears that there is potential in using the human-centered methods in defining the true needs of the recipients of social value. User inspired design methods, such as design ethnography and co-creation could be useful in mapping opportunity areas for new social innovations. Those methods could be useful in gaining understanding about how the people 'in need', the intended beneficiaries, live and what would increase their standard of living. Based on this study, this area of knowledge appears to have potential for interesting research, also to support the possible social innovation tool development.

7.4 Reflection and projection into the future

This was my first introduction to the area of business models, social value creation and social innovation, and it has been an interesting journey. Starting this project was risky and defining the topic proved to be very difficult since all of the key areas were practically unknown for me prior to this work. However, I

think that I have appeared at an interesting place and the risk was definitely worth taking. I have learnt a lot about these areas and how they are and can be connected. The theories and findings about connecting business and social value creation were especially enlightening. Since I had no prior experience in social innovation, this study resulted in a rather general overview about the topic. However, I believe that the general knowledge now gained will definitely be useful for me later in my career and I hope that it will interest the future readers of this thesis.

Social innovation seems to be an area where one can never stop learning. These first steps in this multidimensional field have been very fascinating and it appears that there is still a lot more to discover.

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